

**AN APPRAISAL OF**  
**THE 22,741 SQ. FT. OFFICE BUILDING**



**LOCATED AT**

**2422 W. HOLLY STREET  
PHOENIX, AZ 85009  
PREPARED FOR**

**MS. NOLA BARNES  
ARIZONA DEPARTMENT OF  
TRANSPORTATION  
100 N. 15<sup>TH</sup> AVENUE #202  
PHOENIX, AZ 85007**

**DATE OF VALUATION  
OCTOBER 2, 2009**

**PREPARED BY**

**LINDA S. BEATTY  
FORESIGHT VALUATION GROUP, INC.  
3529 EAST NIGHTHAWK WAY  
PHOENIX, ARIZONA 85048-7850  
FILE NO. 20090068**

October 28, 2009

Ms. Nola Barnes  
General Manager, Building and Planning Services  
Arizona Department of Transportation  
100 N 15th Ave., Suite 202  
Phoenix, AZ 85007

RE: An Appraisal of the 22,741 SF Industrial/Office Building Located at 2422  
W. Holly Street, Phoenix, Arizona

Dear Ms. Barnes,

In accordance with your request, I have personally inspected and prepared an Appraisal Report on the above-identified property. The attached report is submitted which includes the investigations and analyses conducted. This Appraisal is communicated using a Summary Reporting format.

The purpose of this real property appraisal is to provide an opinion of the market value of the subject's fee simple interest, as of October 2, 2009, predicated upon the definition of value described in the body of this report. The intended user of this report is the Arizona Department of Transportation (client). The intended use of this appraisal report is for the exclusive use by the client for the purpose of asset management. This report is not to be relied upon by anyone other than the above referenced "Intended User" for any reason without the explicit written authorization of Foresight Valuation Group, Inc.

This valuation is based upon the attached report and all the assumptions and limiting conditions contained therein. Based upon the findings of my investigation,

**the "AS IS" market value of the fee simple interest of the subject property as of**

**October 2, 2009 is estimated at:**

**\$1,320,000**

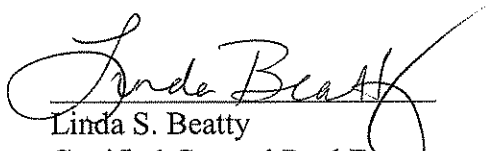
**ONE MILLION THREE HUNDRED TWENTY THOUSAND DOLLARS**

This appraisal has been prepared in conformance with the Code of Professional Ethics of the Appraisal Institute, FIRREA, and the Uniform Standards of Professional Appraisal Practice (USPAP). The development process and the reported data and analysis are consistent with my interpretation of the modifications to USPAP adopted by the Appraisal Standards Board on January 1, 2008.

The marketing period for the subject property, assuming adequate exposure through proper marketing channels, is estimated to be approximately 6-9 months.

I appreciate the opportunity to assist you.

Respectfully submitted,

  
Linda S. Beatty  
Certified General Real Estate  
State of Arizona Appraiser #30336  
Expires August 31, 2010

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## CERTIFICATION FOR LINDA S. BEATTY


I certify that, to the best of my knowledge and belief:

- The statements of fact contained in the report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal viewing of the property that is the subject of this report.
- No one, other than the undersigned, provided significant real property appraisal assistance to the persons signing the certification.
- That the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- The reported analysis, opinions, and conclusions were developed and this report was prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.

- I have the knowledge and experience necessary to complete this appraisal assignment and have appraised this property type previously.

**My opinion of the "AS IS" market value of the fee simple interest of the subject property  
as of October 2, 2009 is estimated at:**

**\$1,320,000  
ONE MILLION THREE HUNDRED TWENTY THOUSAND DOLLARS**

  
Linda S. Beatty  
Certified General Real Estate  
State of Arizona Appraiser #30336  
Expires August 31, 2010

Date: 10/28/2009

### **ASSUMPTIONS AND LIMITING CONDITIONS**

The appraisal report is subject to the following assumptions and limiting conditions:

1. No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable. No warranty, however, is given for its accuracy.
5. Maps, drawings, or sketches have been made a part of the report to aid the reader in visualizing the property, neighborhood, and region. I have made no survey of the property and assume no responsibility in connection with such matters.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
7. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report.
8. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
10. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
11. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization and conditions stated in this report. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
12. The purpose of this report is to estimate market value for asset management. Possession of this report, or a copy thereof, does not carry with it the right of publication. The report may not be used for any purpose by any person other than the proper representatives of the client without the written consent of the appraiser.
13. The appraiser herein, by reason of this appraisal, is not required to give further consultation, testimony, or be in attendance in court with reference to the property in question unless arrangements have been previously made.

14. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser.
15. **The existence of hazardous substances including asbestos, polychlorinated biphenyl's, petroleum leakage, agricultural chemicals or other hazardous materials that may or may not be present on the property, was not observed by or brought to the attention of the appraiser, *except as specifically noted in the appraisal report*. However, the appraiser is not qualified to test such substance or conditions. The presence of any potentially hazardous materials may affect the value of the subject property. The value estimate is based upon the assumption that no such condition exists on the property, in the property or in a proximity that would cause a loss in value. The appraiser assumes no responsibility for any such condition or engineering knowledge required to discover them.**
16. The Americans with Disabilities Act (ADA) became effective January 26, 1992. Neither a specific compliance survey nor analysis has been completed on this property to determine if it is in compliance with the requirements of the ADA. If an analysis or compliance survey reveals that the property is *not* in compliance, this fact could have a negative effect upon the value of the property. Since no direct evidence was available relating to this issue, compliance with the ADA was not considered in estimating the value of the property.
17. **Proposed improvements are assumed to be completed in conformance with building plans supplied to the appraiser, in the time frame estimated to be reasonable in the report. Unless stipulated otherwise in the report, any construction is assumed to be in accordance with the improvement descriptions provided in the report.**
18. **Any value and analyses used to arrive at a prospective future value are based upon the current economic climate. The appraiser cannot be held responsible for unforeseeable events that may alter market conditions prior to the prospective date of the appraisal.**
19. This report or any portion thereof is for the exclusive use of the client for the stated purpose and function and is not intended to be used, given, sold, transferred, or relied on by any person other than the client without the prior, express written permission of the authors. Use of or reliance upon this report by third parties is specifically prohibited. I assume no responsibility for potential claims arising from unauthorized use of this report, or any portion thereof. The client will forever indemnify and hold Foresight Valuation Group, Inc. and its officers and employees harmless from any claims by third parties related in any way to the appraisal or study which is the subject thereof.
20. The appraisal report is meant to be used only in its entirety; no part may be used without the full or entire report.
21. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval of the authors, particularly as to the value conclusions, the identity of the appraisers or the firm with which they are connected.
22. Acceptance of, and/or use of, this appraisal report by the client constitutes acceptance of the above underlying assumptions and limiting conditions, as well as any specific assumptions detailed in the Letter of Transmittal and Appraiser's Certification sections of the appraisal report.

## **Summary Of Important Facts And Conclusions**

<b>File Number</b>	20090068
<b>Property Type</b>	Single-Tenant Industrial/Office Building
<b>Location</b>	2422 W. Holly Street, Phoenix, Arizona, 85009
<b>Assessors Parcel Number</b>	110-50-023 & 110-50-004
<b>Owner of Record</b>	State of Arizona Department of Administration
<b>Property Rights Appraised</b>	Fee Simple
<b>Site Area</b>	Approximately 53,721 SF
<b>Improvement Size</b>	22,741 Square Feet
<b>Zoning</b>	A-2, Industrial District, City of Phoenix
<b>Highest and Best Use</b>	
<b>"As if Vacant"</b>	Hold for future development
<b>"As Improved"</b>	Existing Industrial Office Use
<b>Value Conclusions</b>	
<b>Fee Simple Estate</b>	
<b>"AS IS" Site Value</b>	\$350,000
<b>"AS IS" Improved Value</b>	\$1,320,000
<b>Market Rent Estimate</b>	\$13.00/SF Gross
<b>Date of Valuation</b>	October 2, 2009
<b>Property Viewing Date</b>	October 2, 2009
<b>Date of Report</b>	October 28, 2009

## **Purpose And Intended Use**

The purpose of this appraisal is to arrive at an opinion of market value for the subject property, based upon its "as is" state, as of the effective date of this appraisal. The function, or intended use of this appraisal is for the exclusive use by the Arizona Department of Transportation (Client) for the sole purpose of asset management. The appraiser identifies no additional intended users. This appraisal report is not to be relied upon by anyone other than the above referenced "Intended User" for any reason without the explicit written authorization of Foresight Valuation Group Inc.

## **Definition Of Market Value**

Market Value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (1) Buyer and seller are typically motivated;
- (2) Both parties are well informed or well advised, and acting in what they consider their own best interests;
- (3) A reasonable time is allowed for exposure in the open market;
- (4) Payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and
- (5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Rules and Regulations, Federal Register, Vol. 55, No. 165, Page 34696.

## **Real Property Interest Appraised**

To the best of my knowledge, there are currently no long-term encumbrances on the subject that could divide the property rights. Thus, the property rights appraised represent the fee simple interest, which is defined as

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by governmental powers of taxation, eminent domain, police power, and escheat. (1)

The "As Is" value estimate includes all rights inherent to the fee simple estate and is based upon the assumption that the property is held free and clear of all liens.

## **Exposure Time/ Marketing Time**

According to the Appraisal Standards Board of the Appraisal Foundation, **exposure time** is the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a *retrospective* estimate based upon an analysis of past events assuming a competitive and open market. By comparison, **marketing time** is an estimate of the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately *after* the effective date of an appraisal.

Comparable properties utilized in the Sales Comparison Approach reported exposure times of 2 to 18 months, with an average of 8 months. Exposure time is estimated based upon these sales together with information provided by conversations with market participants and a review of active listings in the local market. Based upon this information and the current state and location of the subject improvements, 6-9 months is considered a reasonable and supportable exposure time for the subject. Given current market conditions, Marketing Time is expected to be within the same time frame.

## **Date Of Valuation And Date Of Appraisal**

<b>"AS IS" Date of Valuation</b>	October 2, 2009
<b>Property Viewing Date</b>	October 2, 2009
<b>Date of Report</b>	October 28, 2009

## **Property History**

According to Maricopa County Public Records, the current owners acquired the subject property in December 2001 via Special Warranty Deed. There have been no arm's length transfers involving the subject property in the past five years. As of the date of appraisal, the subject is not known to be listed for sale or under contract.

## **Scope Of Work And Reporting Format**

In preparing this appraisal the appraiser;

Viewed the interior and exterior of the subject property and the exterior of the comparable properties;

Researched vacant land and improved comparable sales, and rental comparables within the subject market area that have occurred within the past 12 months. Data sources include Arizona Multiple Listing Service, Maricopa County Assessors Records, LoopNet Inc., CoStar Realty Information, Inc., FEMA flood maps;

Confirmed information with public records and/or other knowledgeable sources, analyzed the data and applied the Sales Comparison and Income Approaches;

Estimated the "As Is" fee simple market value of the subject's real property

During the research process the following agents, brokers and other active market participants were contacted for information and/or confirmation, including, but not limited to; James McCabe, Realty Executives; Jeff Martindale, Cutler Commercial; Gary Anderson, Grubb & Ellis; Chad Neppel, Tom Wienholt and Jeff Hays, NAI Horizon; Stanley Rogers, R & H Investments; Rick Hall, Rich Hall Commercial Brokerage; Janice Geisler, Property Owner and Tom Kuffler, Civic Asset Management; and Justin LeMaster, Sperry Van Ness.

The scope of this assignment included both an interior and exterior viewing of the subject. This visual walk-through was conducted to ascertain the general condition, construction, and functional utility of the subject. However, this is not a property inspection report and should not be relied upon as such to disclose specific conditions of the property. All mechanical aspects of the property are considered to be in working order unless specifically reported otherwise to the appraiser. It is outside the scope of this assignment for the appraiser to view unfinished attic spaces, crawl spaces, rooftops, or other areas not easily assessable. If a more intensive viewing of the subject is needed, it is recommended that a professional real property inspector be employed.

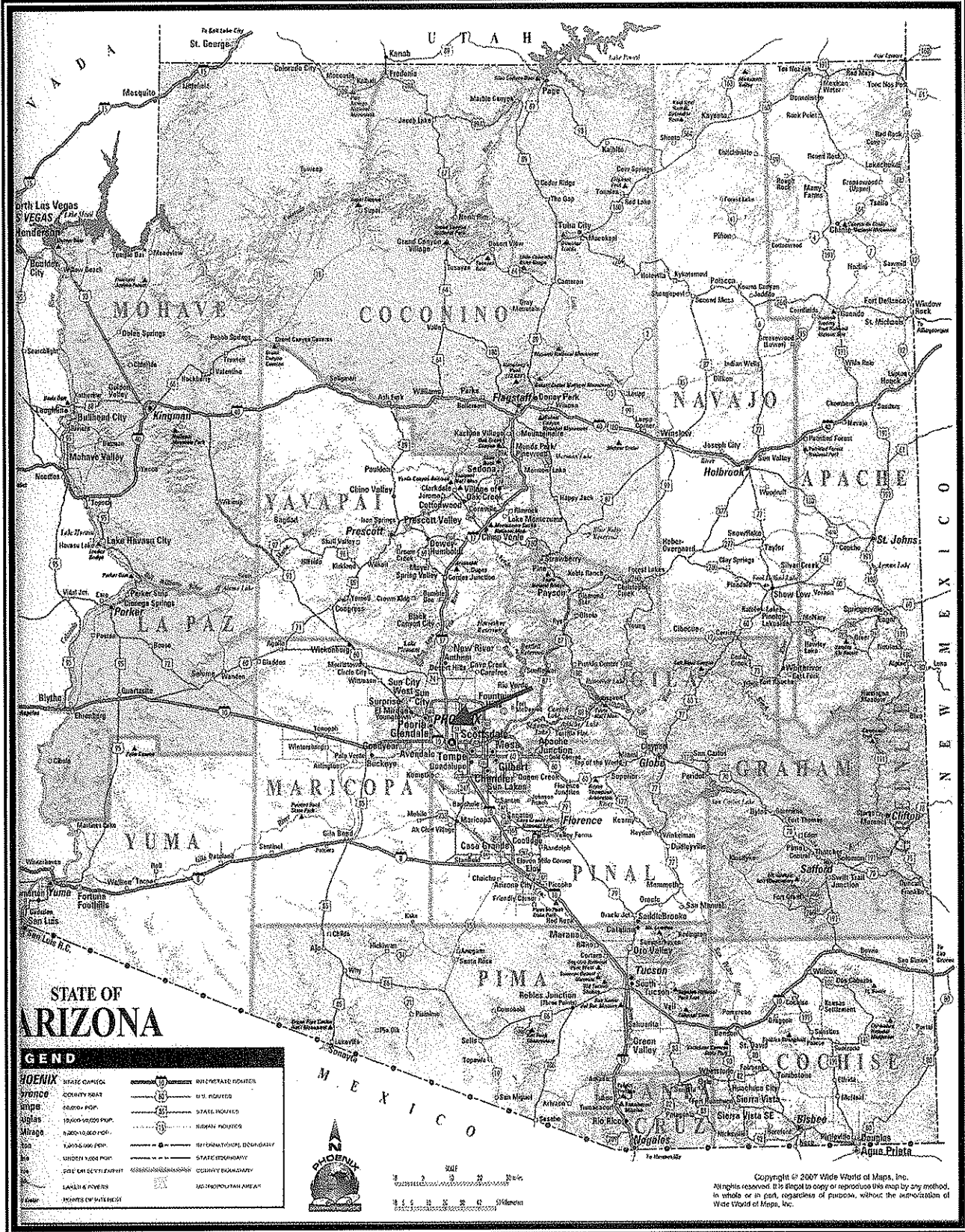
The building area of the subject property is estimated based upon exterior measurements taken as of the effective date of this appraisal. Square footage calculations are approximate and are taken for the sole purpose of comparison in the Sales Comparison Approach. They are not to be relied upon in marketing the subject property, or for any other reason. Unless otherwise stated, the building area of the comparables is based upon information provided in the public records, by Costar, or other resources deemed reliable. It is outside the scope of this assignment for the appraiser to physically measure comparable properties. The site area relied upon for this analysis was taken directly from Maricopa County public records. Neither a title report nor a site survey was provided to the appraiser.



All three approaches to value were considered. The Cost Approach is most reliable for recently constructed improvements that exhibit little or no Physical, Functional, or External Obsolescence. Moreover, market participants do not typically rely upon this method of analysis when purchasing properties such as the subject. As a potential income-producing investment property, the Income Approach is considered an applicable and valuable method of analysis. The Sales Comparison Approach is also considered a reliable method of analysis for developing an opinion of the subject's market value. Since the Cost Approach is not considered necessary to produce a credible report, equal emphasis is placed upon the Sales Comparison and Income Approaches.

To develop the opinion of value, I have performed a Real Property Appraisal in a Summary Reporting format, as defined by the Uniform Standards of Professional Appraisal Practice.

## STATE MAP

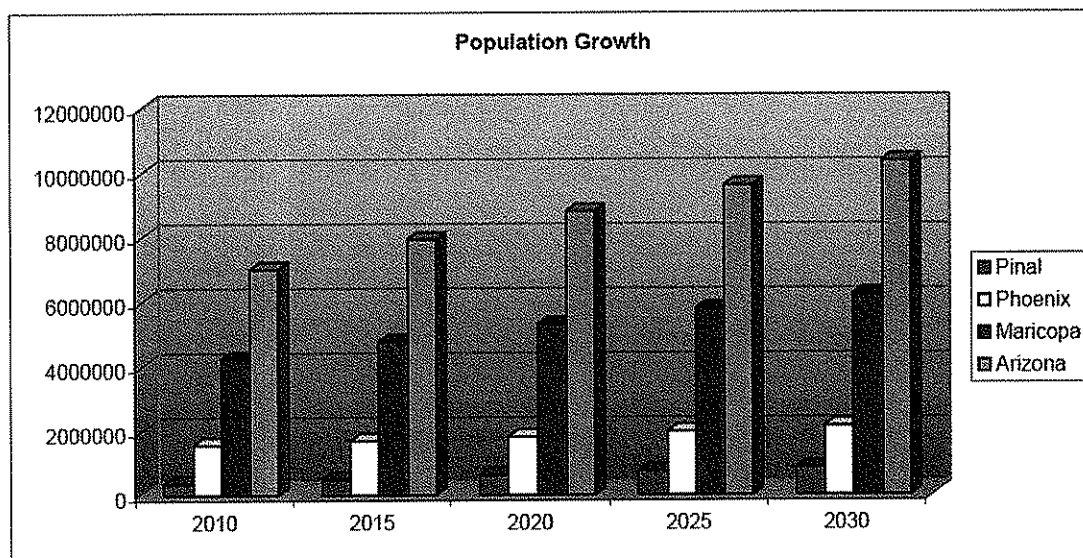


## Regional Area Data

The area in which a property is located has a direct bearing on the marketability, appeal, and future potential of a property. The subject is located in central Phoenix, northwest of the downtown business district, in the central portion of Maricopa County. Therefore, it is important to analyze the social, economic and physical factors, which affect Maricopa County.

The subject property, located east of Interstate 17 and north of Interstate 10, is within Metropolitan Phoenix, in the south-central portion of the State of Arizona. With a 2007 population estimate of 1,538,568<sup>1</sup>, Phoenix is the largest city in Arizona. There are 25 incorporated communities in Maricopa County, with the City of Phoenix at the epicenter and serving as the county seat. The Metropolitan Phoenix City limits contain 517 square miles.

Population in Maricopa County has increased over 27% between the 2000 and 2007. Historically, this expansive growth has been illustrated by increases in 1) employment, 2) population, and 3) personal income. The growth rate for Maricopa County is anticipated to remain steady, though slower, throughout the next 15 years. Growth in population and household trends is important because it points to demand for real estate. Population growth has long been the lifeblood of economic growth in the metro area.

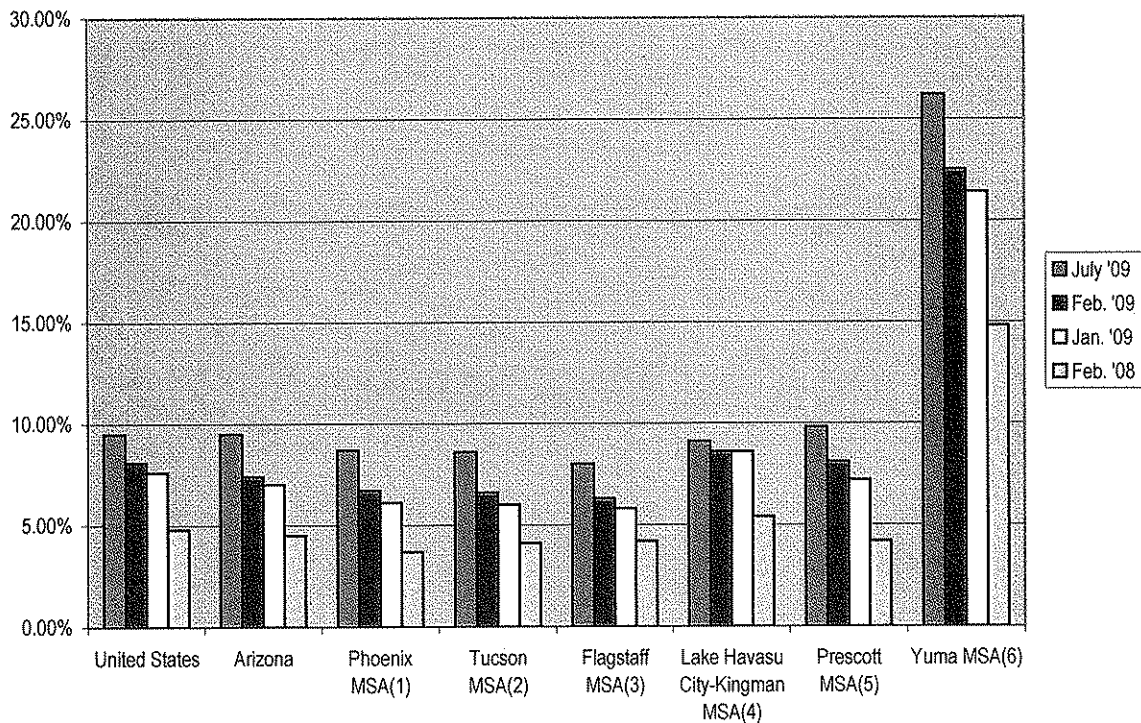


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<sup>1</sup> Arizona Department of Commerce and US Census Bureau

According to the Arizona Department of Economic Security, the total civilian labor force for Maricopa County was 1,854,100 as of 2007. The Trade, Transportation and Utilities segment of the economy is a leading employer with 380,000 people employed in the county. Service and Government are strong components in the work force, employing 320,700 and 218,300, respectively. Maricopa County unemployment rates rose to 8.5% in July 2009, representing a 20-year high. However, Maricopa County is still consistently below the August 2009 national average of 9.7%.

Phoenix MSA (Maricopa and Pinal Counties) unemployment rate rose to 8.7% in July 2009, representing a 20-year high. However, Phoenix MSA is still consistently below the national average of 9.7%.



More than 5 million jobs have been lost since the recession started in December 2007. The index of leading US economic indicators dipped in February for the third time in five months, reflecting the worsening conditions. Consumer confidence plunged, signaling a deepening recession. Consumers and companies are cutting back as financial markets remain fragile, job losses mount and housing and manufacturing sink deeper into a slump.

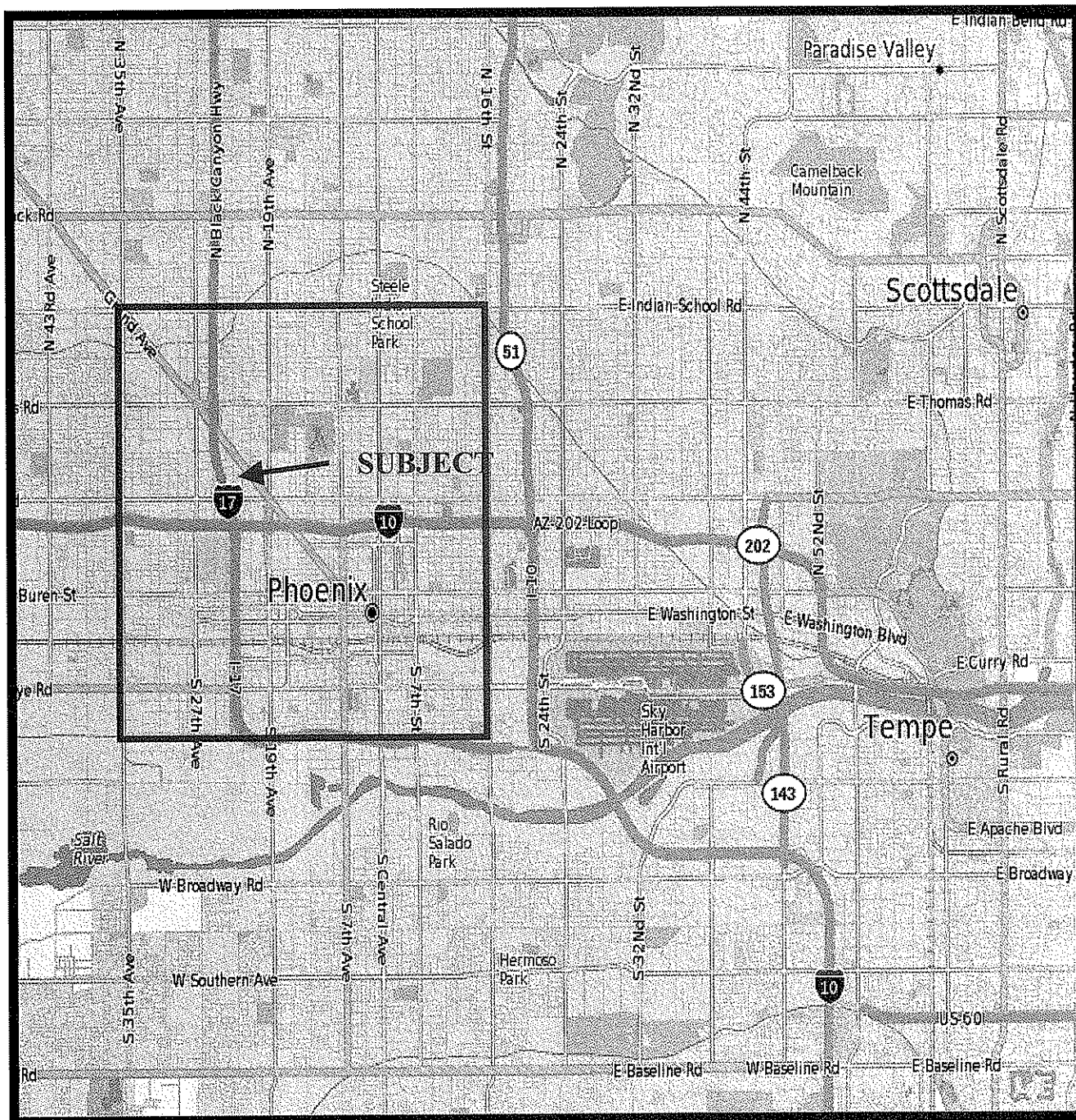
After contracting sharply the last quarter of 2008 and the first quarter of 2009, the Federal Reserve Bank forecasts that GDP will continue to contract, but at a much slower pace in the next quarter. The Fed also reports that the economy shows many signs of continued contraction; however, forward-looking economic indicators such as stock prices, corporate bond spreads, and the Institute for Supply Management survey of manufacturers have been giving more positive readings over the past several weeks.

### **Economic Perspective Conclusion**

Uncertainty in the stock market and the tightening credit market has had a significant impact on the real estate market in Arizona and nationwide. The current local real estate market is affected by these factors contributing to elevated inventories, depressed sales volume and declining prices. Speculative and investment transactions have vanished with owner-users and foreclosures representing the bulk of purchases and new construction.

Over the last 24 months, Maricopa County and the State of Arizona economy experienced a cyclical downturn in conjunction with the national economy as a whole. Local overbuilding in various real estate segments has resulted in a corresponding drop in property values.

## LOCATION MAP





## **Neighborhood Analysis**

A neighborhood is defined as a group of complementary land uses. To provide an understanding of the forces affecting a neighborhood, the boundaries must be set forth. The delineation of the neighborhood boundaries results principally from land use and natural barriers. The subject neighborhood boundaries are considered to be; Interstate 17 to the south; State Route 51 to the east; 35<sup>th</sup> Avenue to the west; and Indian School Road to the north. The defined geographic area encompasses approximately 12 square miles.

The subject is located north of the Phoenix downtown central business district (CBD). Surrounding property uses are primarily commercial and industrial in nature. Some residential properties are located along the interior streets of the perimeter of the neighborhood. These properties consist of a mix of single-family and multi-family dwellings that vary considerably in age, condition, and construction. Some properties in the area exhibit signs of deferred maintenance. Other properties are well maintained. Many older homes with extensive deferred maintenance have been razed and replaced with newly constructed single-family residences.

Public transportation is available along most arterial neighborhood streets. The metro light rail system runs north and south along Central Avenue approximately ½ mile east of the subject. Residential prices within this neighborhood have declined sharply from 18-24 months ago, but have been relatively stable over the past 6 months. The overall market appeal of the neighborhood is considered average.

Overall, the subject neighborhood appears to be in a mature/stable stage of its life cycle, with adequate employment centers and recreational facilities nearby. The overall appearance of the area is typical of a neighborhood in the mature/stable stage of its lifecycle. All public utilities are available to the neighborhood and considered to be adequate for development. In-fill development is not expected in the near term, as the majority of the subject neighborhood is built-out and demand for new development is stagnant. When the existing supply of vacant land within the neighborhood is eventually absorbed, future new development will require the demolition or renovation of existing structures. However, new development is currently nonexistent due to oversupply, depressed sale prices, and extended marketing times.

## Site Description

<b>Physical Address</b>	2422 W. Holly Street, Phoenix, AZ 85009
<b>Location</b>	Located at the Northeast corner of Holly Street and I-17 Frontage, Phoenix, Arizona.
<b>Site Size</b>	Irregular parcel approximately 53,721 square feet. (per Maricopa County Public Records)
<b>Legal Description</b>	Lot 24, McDowell Industrial District Unit 2, according to the plat of record in the office of the Maricopa County Recorder, in Book 72 of Maps, page 46. AND Tract 23, McDowell Industrial District Unit 2, according to the plat of record in the office of the Maricopa County Recorder, in Book 72 of Maps, page 46.
<b>Assessor's Parcel Number</b>	110-50-023 & 110-50-004
<b>Census Tract #</b>	1120.00
<b>Frontage &amp; Dimensions</b>	The subject parcel is irregular in shape (See Assessors Map) approximately 50' x 120' with frontage on Holly Street and Interstate 17 frontage Road.
<b>Ingress &amp; Egress</b>	Vehicular access to the subject is provided by both Holly Street and the I-17 Frontage Road.
<b>Topography &amp; Drainage</b>	Level and at grade with surrounding lands.
<b>Soil Conditions</b>	No soil report for the subject property was provided for review. However, it is assumed that the soil provides sufficient load bearing capacity to support improvements. No evidence to the contrary was observed based upon a physical viewing of the subject.
<b>Available Utilities</b>	Electric – Arizona Public Service Water/Sewer – City of Phoenix Natural Gas- Southwest Gas
<b>Flood Plain</b>	According to Community-Panel No 04013C-2130G, dated 9/30/2005, the subject property is located in Zone X, which is outside of the 100-year flood area. Flood insurance is not typically required for improvements built in Zone X.



**Zoning & Restrictions of Record**

A-2, Industrial District, City of Phoenix

**City of Phoenix Zoning Code:**

Section 628. A-2 Industrial District.

A. Purpose. The Industrial District is designed to accommodate uses with one or more of the following characteristics: intensive use of property; open uses and/or storage; industrial processes which may involve significant amounts of heat, mechanical and chemical processing, large amounts of materials transfer, extended or multiple shift operation, large scaled structures, etc. Such uses often function best in association with other similar or supportive uses. Because of the intensity and characteristics of this use class, specific standards are set to maximize their compatibility when adjacent to residential districts or when located on arterial or collector streets.

**Traffic Count**

Traffic Counts are not available along Holly Street. The nearest arterial traffic counts are reported for McDowell Road at 19<sup>th</sup> Avenue at approximately 19,000 vehicles per day as of 2007.

**Assessed Value & Real Estate Taxes**

2008 FCV = \$887,217

2008 Real Estate taxes = N/A Tax Exempt

**Hazards/Nuisances:**

A visual inspection of the subject did not reveal any obvious hazardous conditions or nuisances.

**Hazardous Materials:**

To the best of my knowledge, no Environmental Site Assessment of the subject property exists. The presence of any potentially hazardous materials may affect the value of the subject property. The value estimate is based upon the assumption that no such condition exists on the property, in the property or in a proximity that would cause a loss in value. The appraiser assumes no responsibility for any such conditions or engineering knowledge required to discover them.

**Owner of Record**

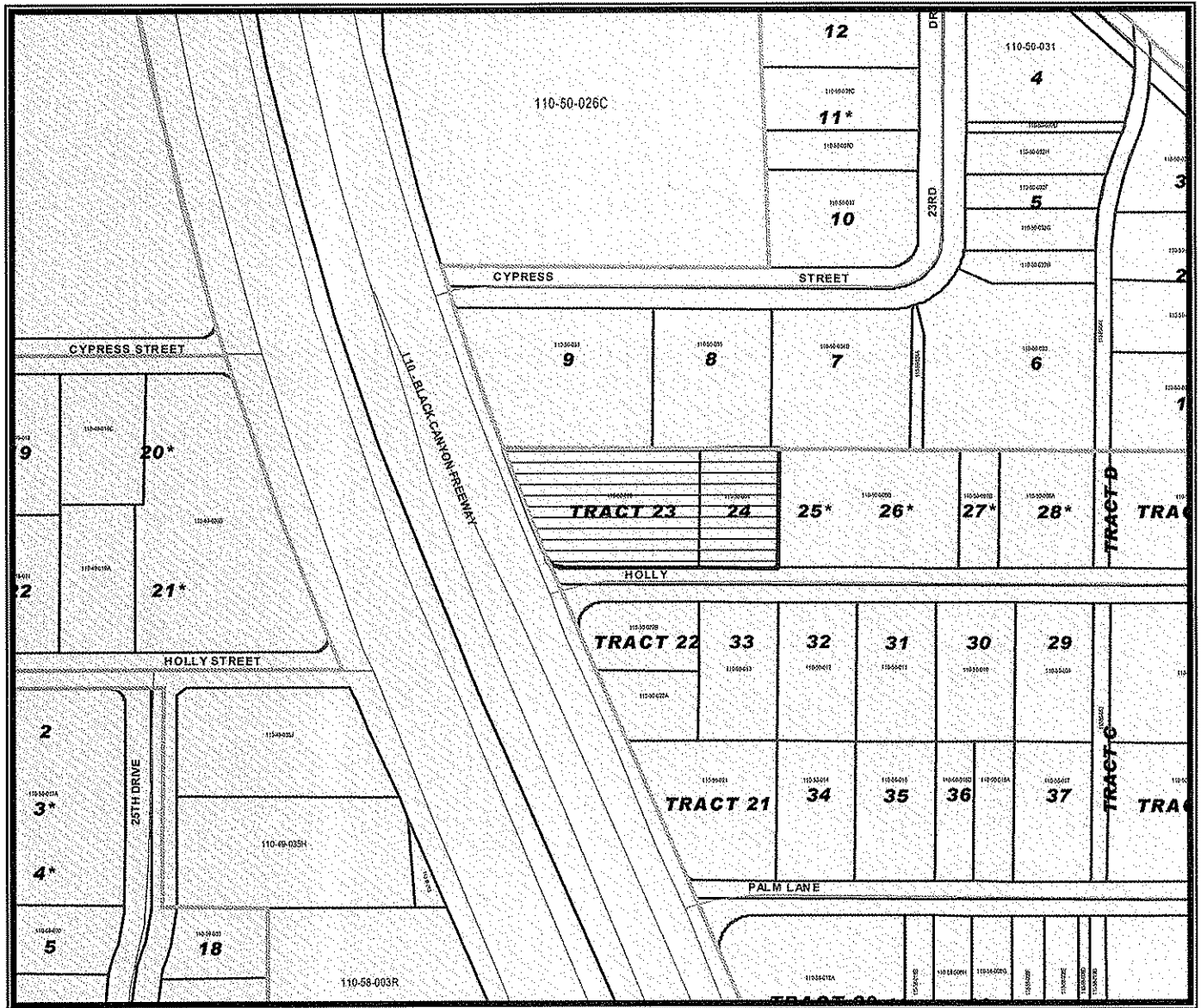
State of Arizona  
1700 W. Washington St. FL801  
Phoenix, AZ 85007

## **Property History**

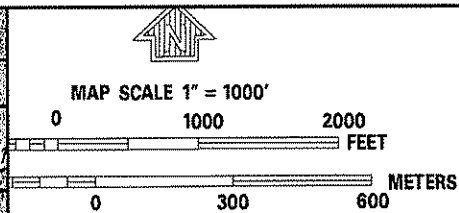
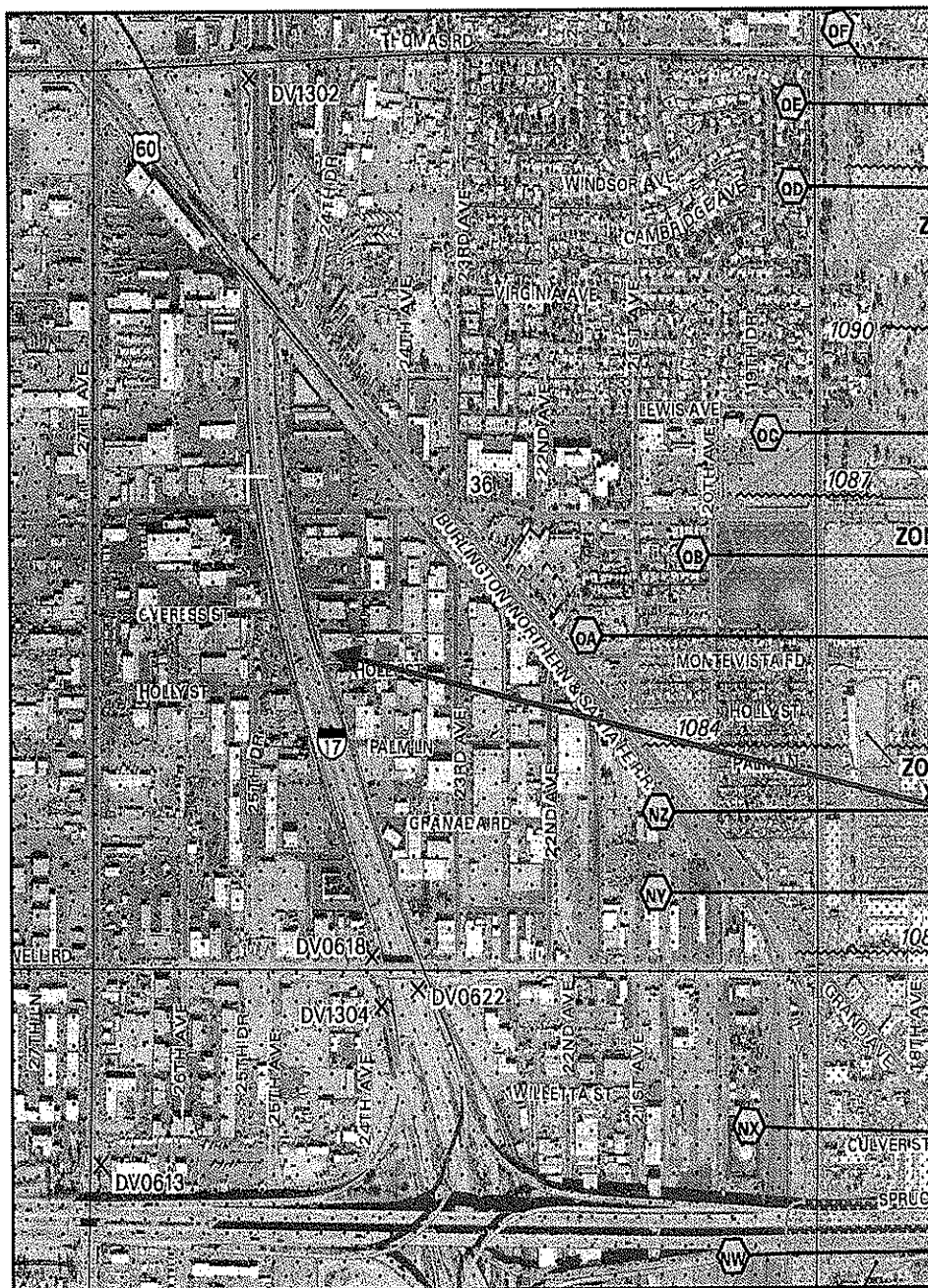
According to Maricopa County Public Records, the State of Arizona Department acquired the subject from Bank One in December 2001 via Special Warranty Deed. There have been no transfers involving the subject property in the past five years.

To the best of my knowledge, as of the date of appraisal, the subject is not known to be listed for sale or under contract.

# ASSESSOR'S MAP



# FLOOD MAP



**NFP**

**PANEL 2130G**

**FIRM**  
FLOOD INSURANCE RATE MAP  
MARICOPA COUNTY,  
ARIZONA  
AND INCORPORATED AREAS

**PANEL 2130 OF 4350**  
(SEE MAP INDEX FOR FIRM PANEL LAYOUT)

**CONTAINS:**

COMMUNITY	NUMBER	PANEL	SUFFIX
MARICOPA COUNTY	040037	2130	0
PHOENIX, CITY OF	040051	2130	0

**Subject**

Notice to User: The Map Number shown below should be used when placing map orders; the Community Number shown above should be used on insurance applications for the subject community.

**MAP NUMBER**  
**04013C2130G**  
**MAP REVISED**  
**SEPTEMBER 30, 2005**  
Federal Emergency Management Agency

This is an official copy of a portion of the above referenced flood map. It was extracted using F-MIT On-Line. This map does not reflect changes or amendments which may have been made subsequent to the date on the title block. For the latest product information about National Flood Insurance Program flood maps check the FEMA Flood Map Store at [www.msc.fema.gov](http://www.msc.fema.gov)

## **Improvement Description**

According to the public records, the subject improvements were built in 1967. The improvements are constructed of block walls with built up roofing. Square footage of the improvements is estimated based upon exterior measurements taken on the effective date of appraisal.

<b><u>Type</u></b>	Single-Tenant Industrial Office Building
<b><u>Square Footage</u></b>	+/- 22,741 Total Building Square Footage
<b><u>Foundation</u></b>	Concrete Slab
<b><u>Exterior Walls</u></b>	CMU Block
<b><u>No. of Buildings</u></b>	One, Single-Story
<b><u>Exterior Doors</u></b>	Mixed, solid core wood and metal.
<b><u>Roofing</u></b>	Built-Up
<b><u>Ceiling/Interior Walls</u></b>	Dropped Acoustical Tiles/Frame drywall
<b><u>Interior Doors</u></b>	Hollow Core, smooth paint grade
<b><u>Windows</u></b>	Fixed-pane
<b><u>Floors</u></b>	Concrete
<b><u>Floor Cover</u></b>	Concrete, Vinyl Tile and Carpet
<b><u>Heating/Cooling</u></b>	Roof mounted Air Conditioning Units/ Cooling Tower, 2000 MBH Boiler and Evaporative Coolers
<b><u>Compatibility with Surrounding Uses</u></b>	The subject property is compatible with the surrounding uses as well as those in the general neighborhood. Surrounding property uses are primarily industrial.
<b><u>Functional Utility</u></b>	The floor plan and utility of the building are considered average.
<b><u>Land-to-Building Ratio</u></b>	2.36 to 1.00

**Site Improvements**

Open asphalt-paved parking, with 37 regular and 1 handicapped accessible stalls with perimeter chain link fencing and gates.

**Condition**

The improvements are considered to be in average condition for their age. Recent improvements in the past 8 years include replacing water heaters, water softener, water-cooled chiller, emergency battery and fire alarm system. There were minimal signs of deferred maintenance noted.

**Actual Age**

42 Years

**Economic Life**

Approximately 50 years according to Marshall Valuation Service.

**Effective Age**

20 Years

**Remaining Economic Life**

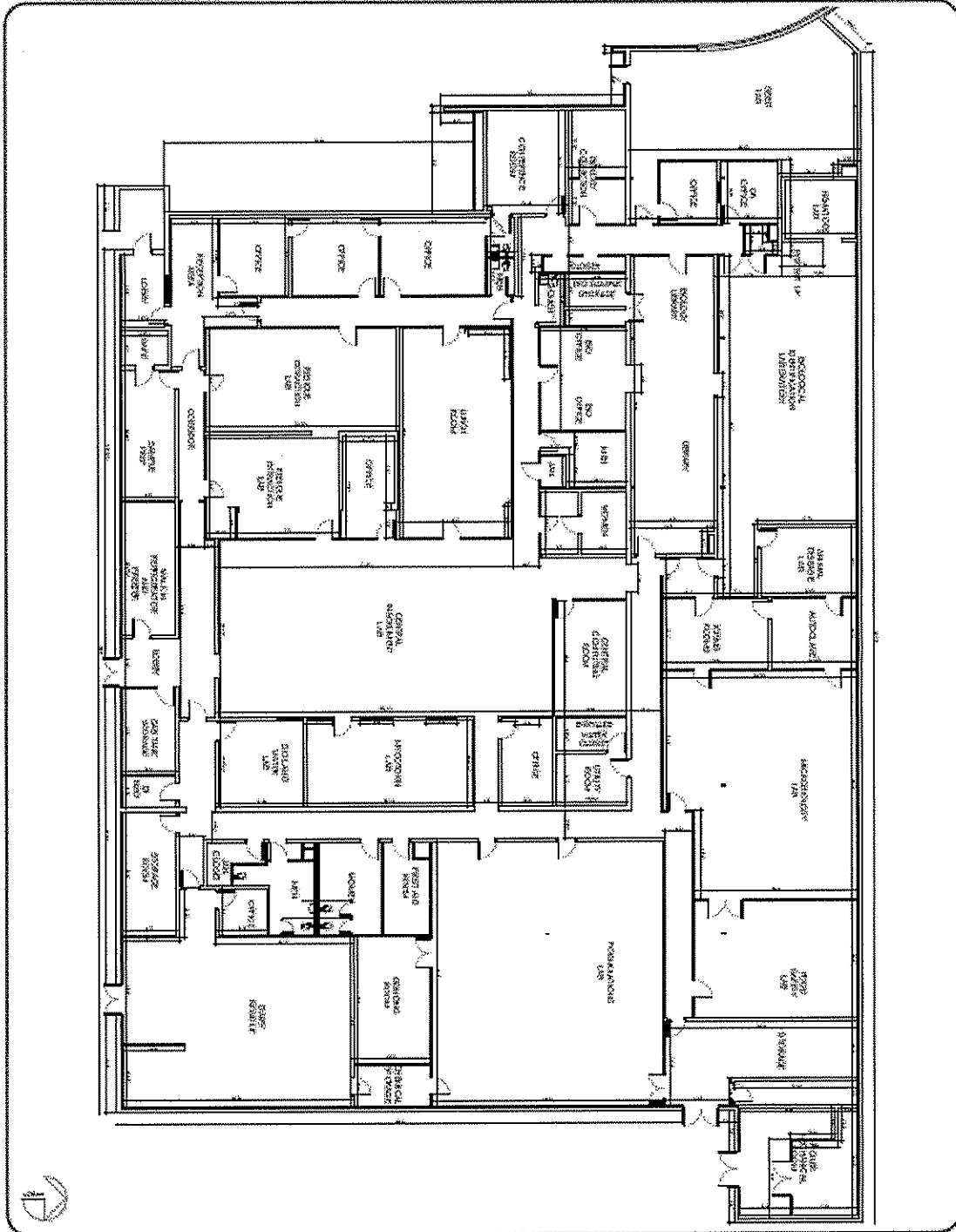
The remaining economic life is approximately 30 years.


**Deferred Maintenance/Damage:**

As of the date of appraisal, there were obvious signs of water damage to the interior drop ceiling in the conference room and private office at the west end of the building. The tenant reports that there is an ongoing roof leak in that area. It is highly recommended that a roof inspection be completed to confirm the extent of any needed repairs.

Additionally, the presence of water damage to interior ceiling and/or walls could result in the presence of mold. It is recommended that the improvements be tested for the presence of any type of mold if this is of concern.

# IMPROVEMENT SKETCH



 <p>STATE OF ARIZONA DEPARTMENT OF AGRICULTURE 1001 N. 1ST AVE., 2ND PHOENIX, AZ 85007</p>		<p>AGRICULTURAL LABORATORY 2942 W. HOLLY ST. PHOENIX, ARIZONA</p>		<p>FLOOR PLAN 1st FLOOR</p>		<p>DATE: 10/20/2006 BY: J.P. 1</p>	
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## **Highest And Best Use**

The concept of Highest and Best Use is set forth by the following definition:

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.<sup>2</sup>

“As if Vacant”

The subject property consists of two contiguous parcels with approximately 165 feet of frontage along Interstate 17 frontage road and 275 feet of frontage along Holly, a paved interior street. The subject is at grade with surrounding parcels. The Maricopa County Assessor estimates the total site area at approximately 53,721 square feet. Water and sewer are provided to the property by the City of Phoenix. Electrical service is provided by Arizona Public Service (APS) via overhead lines.

Streets are publicly maintained by the City of Phoenix. The subject property is zoned A-2, Industrial District, by the City of Phoenix. The purpose of the Industrial District is to accommodate intensive uses such as; open uses and/or storage; industrial processes which may involve significant amounts of heat, mechanical and chemical processing, large amounts of materials transfer, extended or multiple shift operation and large scaled structures. Specific requirements may be mandated when such uses are adjacent residential uses or major arterial thoroughfares. Based upon surrounding property uses, a change in zoning is considered unlikely as of the date of this report. The subject enjoys good linkage with the surrounding Phoenix Metropolitan area, via Interstate 17 and Interstate 10, which border the subject neighborhood. Surrounding uses are primarily industrial in nature. As reported in the Regional Area and Neighborhood Analysis sections of the appraisal, property values are significantly depressed due to over supply of existing inventory.

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2 The American Institute of Real Estate Appraisers, The Dictionary of Real Estate Appraisal, 2<sup>nd</sup> Ed.(Chicago, 1989), p. 149.



Thus, considering the size of the subject site, its utility services, access, visibility, zoning, and location, its Highest and Best Use (as vacant) is to hold as a speculative investment for future development. The subject's use, to hold as a speculative investment, is a reasonably probable and legally permissible use of the site. Based upon current market conditions, this use represents a physically possible, appropriately supported, financially feasible use of the subject property as if vacant.

#### “As Improved”

The Highest and Best Use presupposes that existing improvements should not be demolished unless the potential net return from new improvements exceeds the return obtainable from the existing improvements. As discussed, the subject improvements contain approximately 22,741 square feet of building area. Construction consists of CMU block exterior walls with a built up roof structure. The site has adequate ingress/egress. The subject improvements represent a physically possible, legally permissible use of the subject site that results in a positive overall return to the site. Based upon current market conditions, there are no alternative uses that would provide a great enough return to warrant the demolition of the existing improvements. Thus, the Highest and Best Use “as improved” is the existing use as an industrial office building.

## **Valuation Process**

In estimating the value of real property, there are three recognized approaches or techniques available to the appraiser. These three approaches, the Cost, Sales Comparison, and Income Approaches, can be used to process data considered significant into separate value indications. The Cost Approach is based upon the proposition that an informed purchaser would pay no more than the cost of reproducing the subject improvements on a similar site. This approach is most applicable in newly constructed improvements when verifiable costs estimates are available and accrued depreciation is minimal. According to public records, the subject improvements were built in 1967. For this reason, this approach is not considered a necessary method of analysis for estimating the market value of the subject. Market participants do not typically rely upon this method of analysis when making their decision to purchase an older existing property.

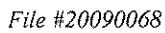
The Income Approach is based upon the principle of anticipation. Value is created by the expectation of future benefits in the form of cash flows. This value may be defined as the present worth of all rights to those future benefits. As a potential income producing property, the Income Approach was applied as a reliable estimation of market value.

The Sales Comparison Approach is based upon the principle of substitution. In theory, a prudent buyer will pay no more to acquire a property than the cost to purchase another similar property with equal utility. This approach is used to estimate the market value of a property by comparing it to similar properties that have recently sold. The sales are compared on the basis of property rights conveyed, financing terms, conditions of sale, market conditions and physical characteristics. Since two properties are seldom identical, adjustments are made to the comparable sale prices to compensate for significant differences perceived by the market. Typically, commercial properties such as the subject are bought and sold based upon this approach. Thus, this approach is considered an appropriate method of analysis for the subject property.

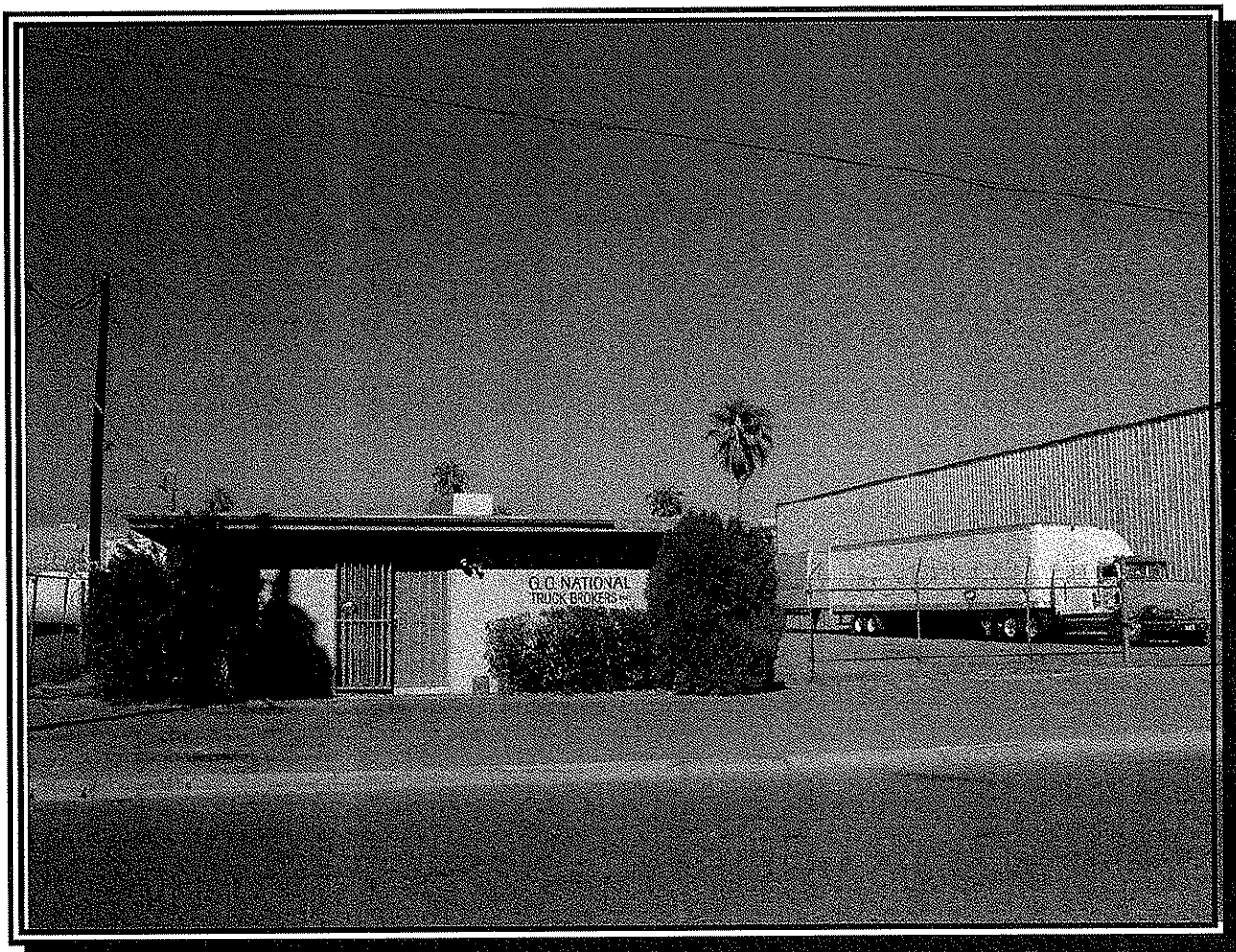
All three approaches to value were considered in the appraisal assignment. Due to the age of the improvements, and the subjectivity of estimating various forms of accrued depreciation, the Cost Approach was not considered a necessary method of analysis. Market participants for this property type most commonly rely upon the Sales Comparison and Income Approaches. Thus, both the Income and Sales Comparison Approaches were utilized in this analysis.

## **Site Valuation**

Although the Cost Approach was not considered a necessary method of analysis for the subject improvements, for purposes of analysis in the Highest and Best Use, the subject site's value was estimated by direct sales comparison. This method is processed through the collection of recent sales and current offerings of similar sites. A thorough search was made to obtain the most current comparable sales of similar sites. Due to the built-up nature of the subject neighborhood, few sales of vacant land have taken place in the past 6 to 12 months. The sales chosen represent the most comparable market data discovered. These sales were confirmed through the public records and with at least one party involved in the transaction, whenever possible. Because no two sites are ever identical, adjustments to the comparables are considered for property rights conveyed, financing terms, conditions of sale, market conditions, time, location, and physical characteristics. The range is then reconciled into a market value estimate for the subject site. The unit of comparison employed for this analysis is the price per square foot of site area.



LAND COMPARABLE NO. 1



Location: 3012 W. Virginia Ave.  
Phoenix, AZ

Assessor Parcel: 108-32-017

**Sale Data**

Sale Price: \$215,000  
Price/SF \$11.41

Date Recorded: September 30, 2009

Docket Number: 09-0910323

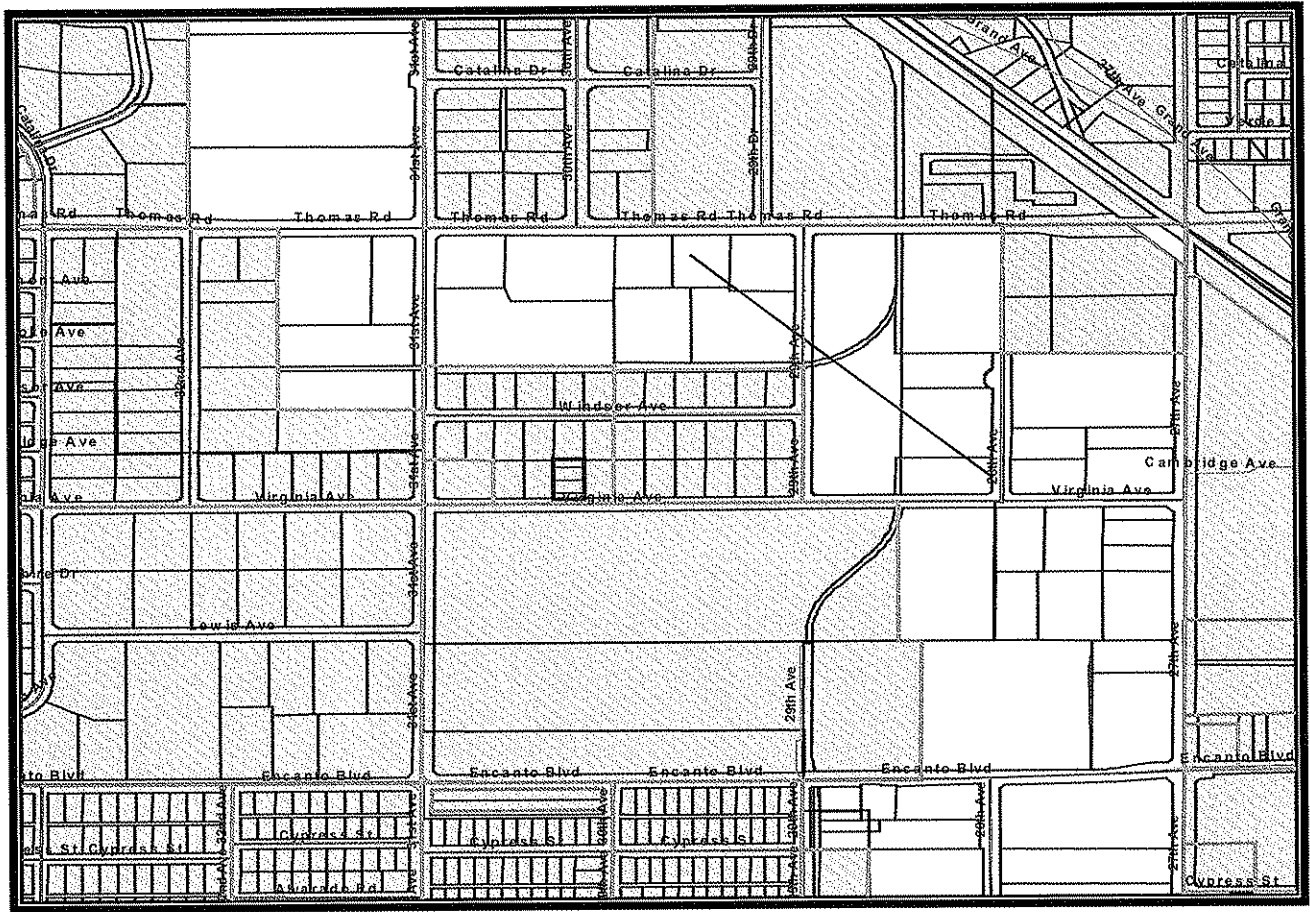
2008 Real Estate Taxes: \$3,151.62  
Per square foot: \$0.17

Seller/Grantor: Gary & Janice Geisler  
Trustees

Buyer/Grantee: Hen House  
Productions, LLC

Site Area: 18,835 S.F.

Description: The site area of this parcel is 18,835 square feet and is zoned A-2 by the City of Phoenix. The property has access from Virginia Avenue, a paved interior street. At the time of sale, the site had a 560 square foot office building that was thought to add minimal value to the purchase price.



3 Year Sale History:	No recorded arm's length transactions involving this property were discovered within the prior three years.
Zoning:	A-2, Industrial District, City of Phoenix
DOM:	+/- 6 months
Shape:	Rectangular
Confirmation:	Public Records, Janice Geisler, seller and Affidavit of Property Value.

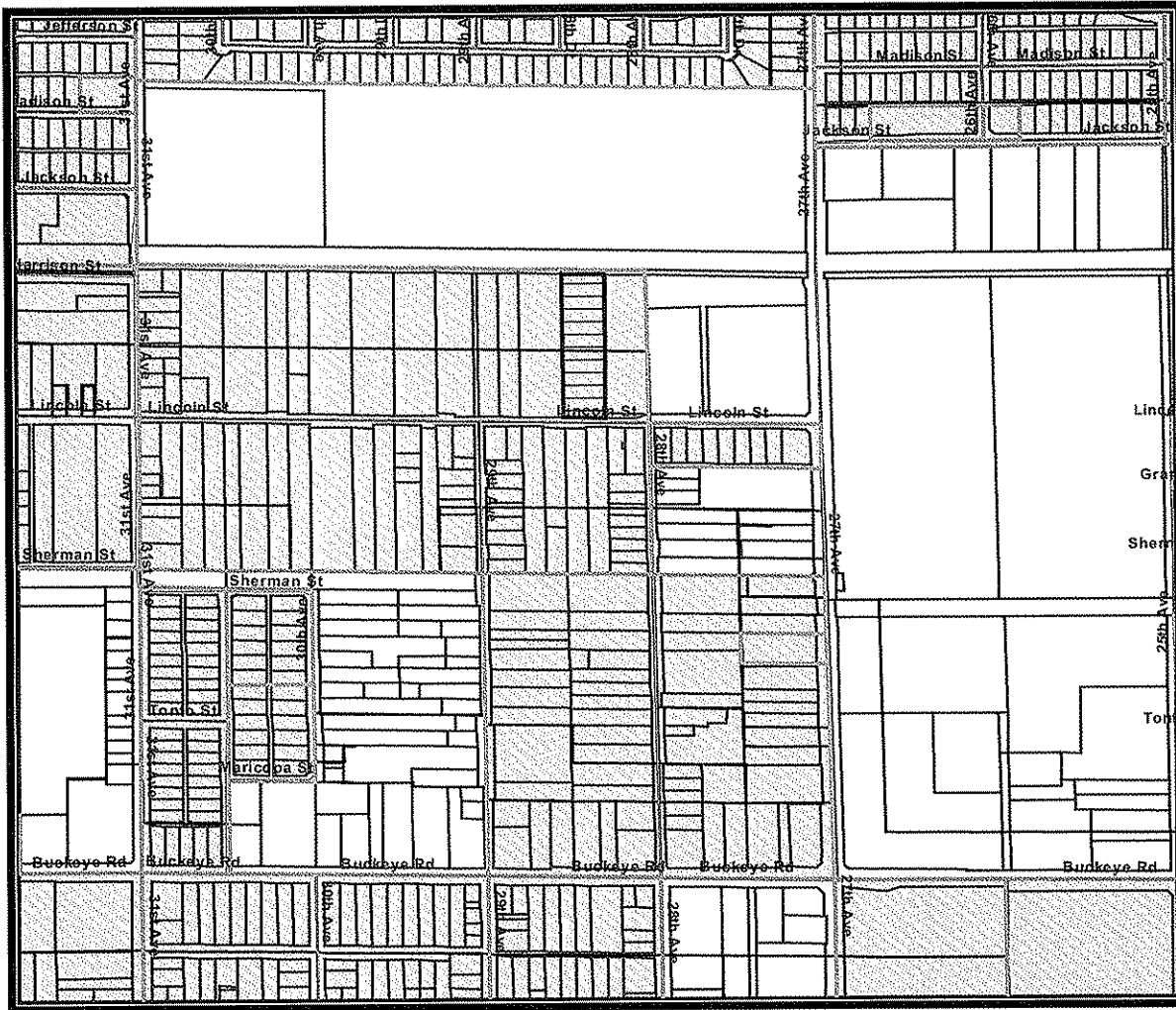


LAND COMPARABLE NO. 2



Location:	2800 W. Lincoln Street Phoenix, AZ	Assessor Parcel: 109-54-011B
<b><u>Sale Data</u></b>		
Sale Price:	\$512,500	Date Recorded: April 14, 2009
Price/SF	\$5.20	
Docket Number:	09-0331518	2008 Real Estate Taxes: \$9,433.58 Per square foot: \$0.96
Seller/Grantor:	Hirsch Enterprises, LLC	Buyer/Grantee: Michael Pierson & Michael Pierson III
Site Area:	98,474 S.F.	

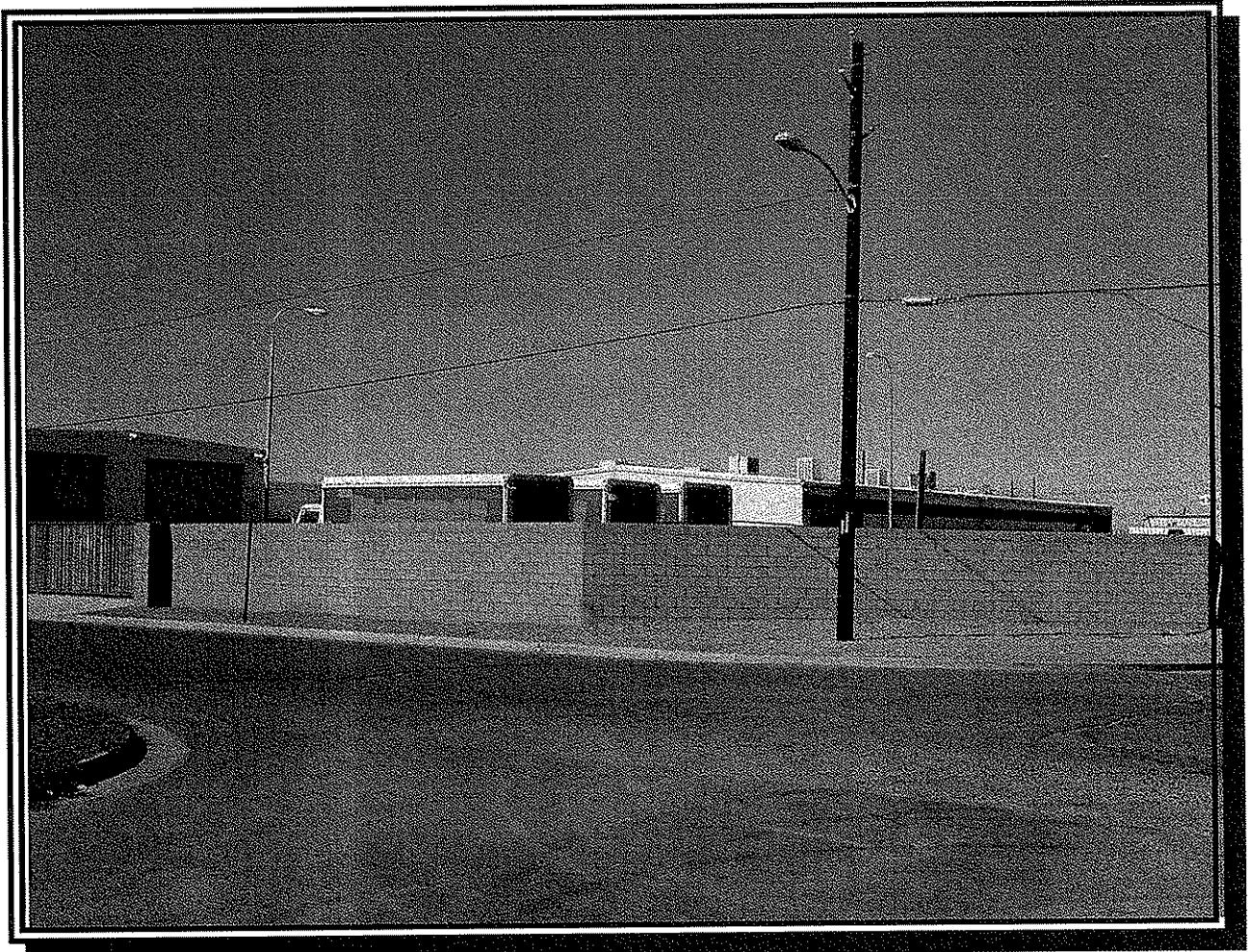
**Description:** The site area of the parcel is approximately 98,474 square feet and is zoned A-2 by the City of Phoenix. The property has paved access from a lightly traveled interior street. According to the agent, the improvements had minimal value and the site was priced aggressively due to the sellers need to sell quickly.



3 Year Sale History:	The sellers acquired the property in May 2004 via Quit Claim Deed. No recorded transactions involving this property were discovered within the past three years.
Zoning:	A-2, Industrial District, City of Phoenix
DOM:	+/- 60 days
Shape:	Rectangular
Confirmation:	Rick Hall, Listing Agent, Public Records and Affidavit of Property Value.



LAND COMPARABLE NO. 3



Location: 2440 S. 11<sup>th</sup> Avenue      Assessor Parcel: 105-36-011A  
Phoenix, AZ

**Sale Data**

Sale Price: \$130,000      Date Recorded: August 21, 2009  
Price/SF \$6.66

Docket Number: 2009-0783205      2008 Real Estate Taxes: \$3,055.62  
Per square foot: \$0.16

Seller/Grantor: 2440 S. 11<sup>th</sup> Avenue, LLC      Buyer/Grantee: Franco Colacci

Site Area: 19,515 S.F.

Description: The site area of this parcel is 19,515 square feet and is zoned A-2 by the City of Phoenix. The property has access from 11<sup>th</sup> Avenue, a paved interior street. At the time of sale, there was a metal canopy and block perimeter fencing on the site.



3 Year Sale History:	No recorded arm's length transactions involving this property were discovered within the prior three years.
Zoning:	A-2, Industrial District, City of Phoenix
DOM:	Unknown
Shape:	Rectangular
Confirmation:	Several unsuccessful attempts were made to contact either the buyer or seller. As a result, information was utilized from Public Records and Affidavit of Property Value.

# COMPARABLE LAND SALES SUMMARY

Address	Subject-1	Sale 1	Sale 2	Sale 3
	2422 W. Holly Road	3012 W. Virginia Ave	2800 W. Lincoln Street	2440 S. 11th Avenue
	Phoenix	Phoenix	Phoenix	Phoenix
		108-32-017	109-54-011B	105-36-011A
Sale Date		9/30/2009	4/14/2009	8/21/2009
Sales Price		\$215,000	\$512,500	\$130,000
Site Area (SF)	53,721	18,835	98,474	19,515
Price Per Square Foot		\$11.41	\$5.20	\$6.66
Property Rights	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Financing Terms		Cash	Cash	Cash
Conditions of Sale	Market	Market	Distressed	Market
Location	Average	Average	Average	Average
Utility	Average	Improvements	Average	Average
Zoning	A-2	A-2	A-1/A-2	A-2

## **Comparable Land Sales Discussion**

**Comparable Number One** represents a 0.43-acre parcel located about ½ mile northwest of the subject. This property is located on a paved interior street. The parcel transferred on September 30, 2009 for a recorded price of \$215,000, or \$11.41 per square foot. The site is zoned A-2, Industrial District, the same as the subject. As of the date of sale, there was a 560 square foot office building on the site. The existing improvements were considered to have some contributory value. When compared to the subject, a downward adjustment is made to the unit price of this comparable to reflect the improvements. A downward adjustment is applied to reflect this parcels smaller size and subsequent higher per unit selling price. The adjusted unit price of this comparable is \$6.85 per square foot.

**Comparable Number Two** is comprised of an interior parcel with a site area of about 2.2 acres located about 3.0 miles southwest of the subject. This property is zoned approximately ½ A-1 and ½ A-2, both are Industrial Districts by the City of Phoenix. According to the listing agent, the sellers were in need of a quick sale and priced the site aggressively. The property was on the market less than 60 days and closed on April 14, 2009 for \$512,500 or \$5.20 per square foot. The property is similar in location to the subject on a lightly traveled interior street in a primarily industrial neighborhood. An upward adjustment for conditions of sale is applied based upon input from the listing agent. An additional upward adjustment is applied to reflect this comparable's larger site area and lower per unit selling price. The adjusted price of this comparable is \$6.30 per square foot.

**Comparable Number Three** is the recent sale of a 0.45-acre site, located approximately 4.5 miles southeast of the subject. Attempts to contact either the buyer or seller were unsuccessful. Thus, reliance is placed upon assessor's records and the recorded affidavit of property value. This property sold on August 21, 2009 for \$130,000 or \$6.66 per square foot. This parcel is zoned A-2, Industrial District, the same as the subject. The property's site improvements were not considered significant to the selling price. A downward adjustment is made to reflect this parcels smaller size and higher per unit selling price. After adjustment, this property reflects a price of \$5.33 per square foot.

These comparables are considered the most current, comparable market data available. All comparables are located within a six-mile radius of the subject. The unit of comparison used to analyze the comparables is the price per square foot of site area. The unit prices of the comparables are calculated by dividing the sale price by their corresponding net site area. After completing these calculations, the comparables provided a range in unit price between \$5.20 and \$11.41 per square foot.

The subject site is comprised of a 1.23-acre parcel. The comparables were selected to bracket the size, location and utility of the subject. The adjusted unit price range of the comparables narrowed to \$5.33 to \$6.85. Placing nearly weight on all three comparables, the subject's market value is estimated at \$6.50 per square foot of site area. Thus, the market value of the subject site is estimated as follows: 53,721 SF x \$6.50 per square foot equals \$349,187, \$350,000 rounded.

# COMPARABLE LAND SALES ADJUSTMENT GRID

	Subject-1	Sale 1	Sale 2	Sale 3
Address	2422 W. Holly Road	3012 W. Virginia Ave	2800 W. Lincoln Street	2440 S. 11th Avenue
	Phoenix	Phoenix	Phoenix	Phoenix
Sale Date (COE)		9/30/2009	4/14/2009	8/21/2009
Sales Price		\$215,000	\$512,500	\$130,000
Site Area (SF)	53,721	18,835	98,474	19,515
<b>Price Per Square Foot</b>		<b>\$11.41</b>	<b>\$5.20</b>	<b>\$6.66</b>
Adjustments:				
Property Rights	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Adjustment		\$0.00	\$0.00	\$0.00
Financing Terms		Cash	Cash	Cash
Adjustment		\$0.00	\$0.00	\$0.00
Conditions of Sale		Market	Distressed	Market
Adjustment		\$0.00	\$0.52	\$0.00
Date of Sale		9/30/2009	4/14/2009	8/21/2009
Adjustment		\$0.00	\$0.00	\$0.00
Adjusted Price Square Foot		\$11.41	\$5.72	\$6.66
Location	Average	Average	Average	Average
Adjustment		0%	0%	0%
Utility	Average	Improvements	Average	Average
Adjustment		-20%	0%	0%
Zoning		A-2	A-1/A-2	A-2
Adjustment		0%	0%	0%
Size	53,721	18,835	98,474	19,515
Adjustment		-20%	10%	-20%
Net Adjustments				
per Square Foot		-40%	10%	-20%
Adjusted Price Per Unit		\$6.85	\$6.30	\$5.33

## **Sales Comparison Approach**

The Sales Comparison Approach is used to estimate the market value of a property by comparing it to similar properties that have recently sold. In order for the adjustment process to work, a unit or units of comparison for the subject and comparable properties must be selected. Typically, the price per square foot of building area is the most appropriate in the valuation of industrial office buildings. Due to the size of the subject and comparables, the price per square foot of building area will be used as a unit of comparison in this analysis.

The subject is a relatively unique property with regards to the interior improvements. The zoning, location and surrounding property uses are industrial in nature. Most industrial properties in the area consist of warehouse or storage facilities with clear heights of 16 to 24 feet and 10-20% office build out. These properties usually have air conditioned office areas and evaporative cooled warehouse. Many have overhead, roll-up doors and/or truck wells. The subject is built out with 100% air conditioning, dropped acoustical tile ceilings and highly upgraded plumbing, electrical, and heating/cooling. The current design of the improvements would best be classified as research and development or light manufacturing.

No recent sales of single tenant buildings of similar interior finish have occurred in the subject market area. As a result, the search for comparables was expanded to include industrial warehouse and industrial office. The sales chosen represent the most comparable market data available and were chosen to bracket the subject in size, age, location, and utility. These sales were all confirmed through the public records and with at least one party involved in the transaction, whenever possible. The comparable sales are then adjusted on the basis of property rights conveyed, financing terms, conditions of sale, time, location, and physical characteristics. The comparable sales, after adjustment, provide a value range for the subject property. The range is then reconciled into a market value estimate for the subject.

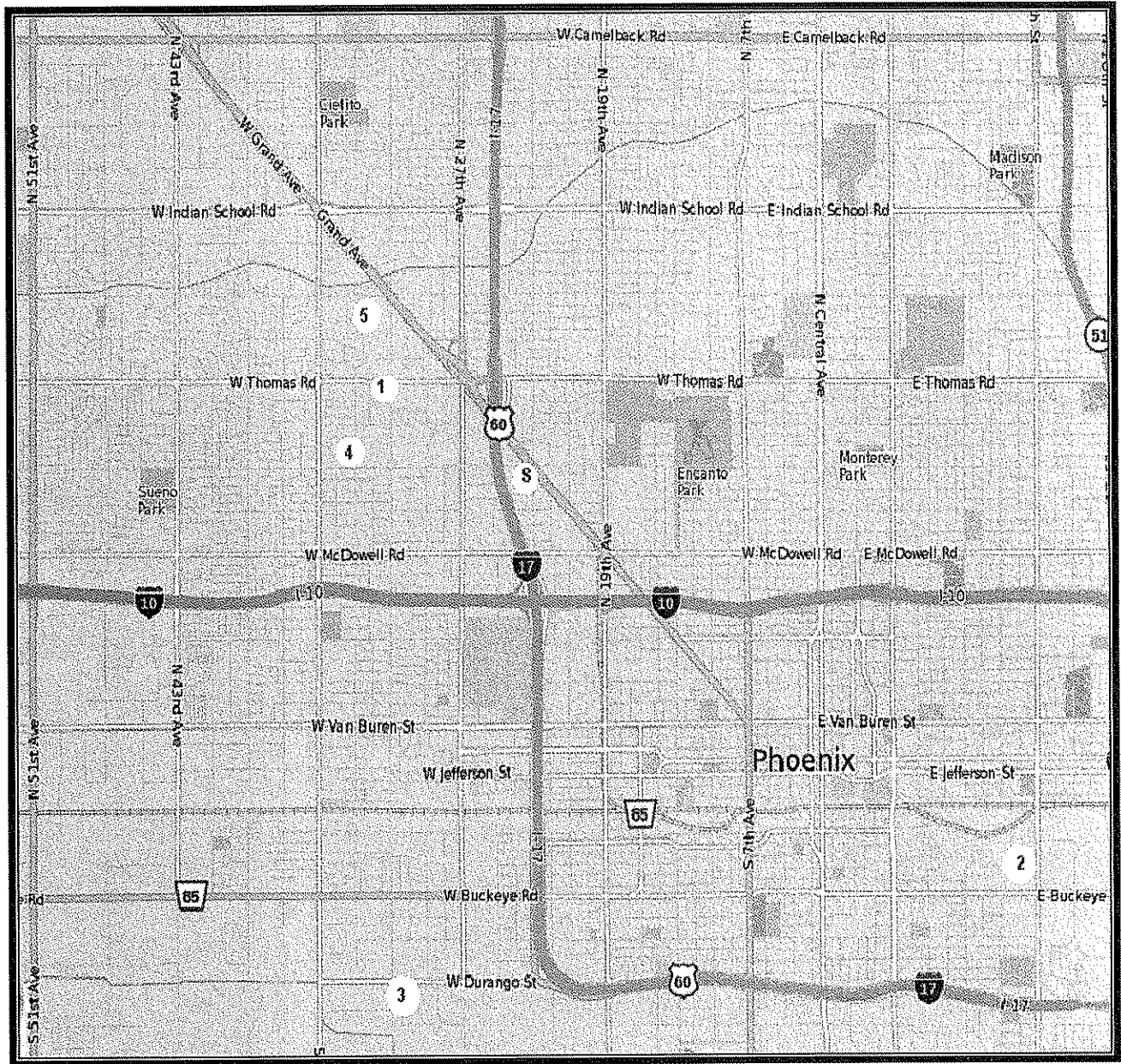
A summary of the improved comparables utilized in the analysis, and individual comparable descriptions are located on the following pages.

# COMPARABLE SALES SUMMARY

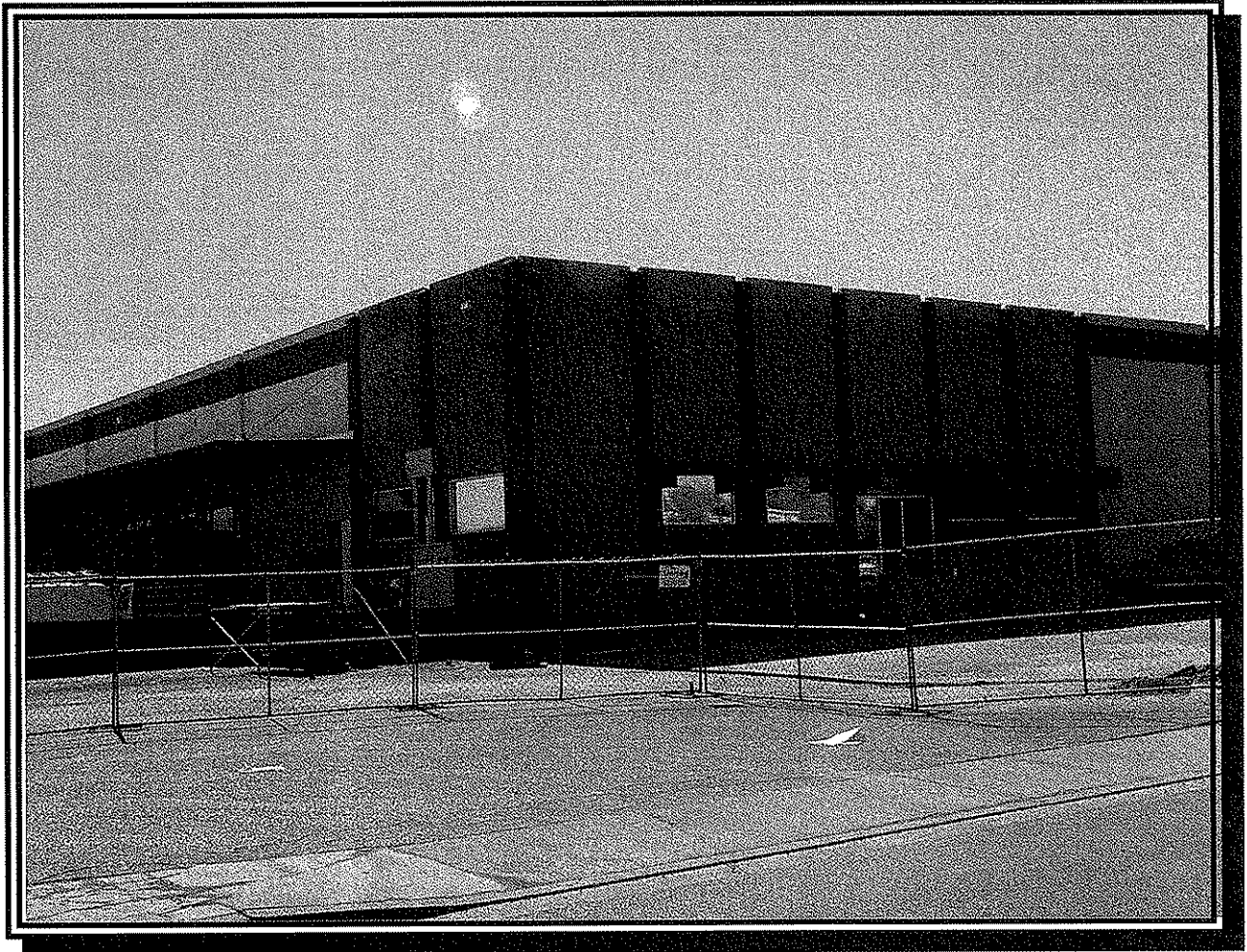
	Subject	Sale 1	Sale 2	Sale 3	Listing 4	Listing 5
Address	2422 W. Holly Road Phoenix	3131 W. Thomas Phoenix	1445 E. Hadley St Phoenix	4101 W. Gibson Ln Phoenix	3320 W. Vernon Ave Phoenix	3161 N. 33rd Ave Phoenix
Sale Date		20-Aug-08	28-Aug-09	7-Aug-09	Pending	Active
Sales Price		\$1,600,000	\$2,275,000	\$2,000,000	\$950,000	\$1,395,000
Square Footage	22,741	20,400	25,947	44,316	13,200	19,950
Site Area	53,721	131,333	81,457	107,680	56,000	168,884
<b>Price Per Square Foot</b>		<b>\$78.43</b>	<b>\$87.68</b>	<b>\$45.13</b>	<b>\$71.97</b>	<b>\$69.92</b>
Property Rights	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Conditions of Sale		Market	Market	Short Sale	Pending	Market
Location	Average	Average	Average	Average	Average	Average
Condition	Average	Average	Above Average	Average	Average	Average
Improvement Age	42 Years	43 Years	6 Years	18 Years	28 Years	26 Years
Land to Bldg Ratio	2.36	6.44	3.14	2.43	4.24	8.47
Construction	Block/Built Up	Block/Asphalt	Conc. Tilt/Built Up	Conc. Tilt/Built Up	Block/Built Up	Block/Built Up
Zoning	A-2	A-1	A-2	A-1	I-P	A-2
Exp Time (mos)		3+	18+	12+	6+	2+



## COMPARABLE SALES LOCATION MAP



**IMPROVED COMPARABLE NO. 1**



Location: 3131 W. Thomas Rd.  
Phoenix, AZ

Assessor Parcel: 108-09-001J

**Sale Data**

Sale Price: \$1,600,000  
Price/SF \$78.43

Date Recorded: August 20, 2008  
Terms: 40% down, new conv. loan

Docket Number: 08-0728069

2008 Real Estate Taxes: \$33,409.68  
Per Square Foot: \$1.64

Seller/Grantor: Anvil International, LP

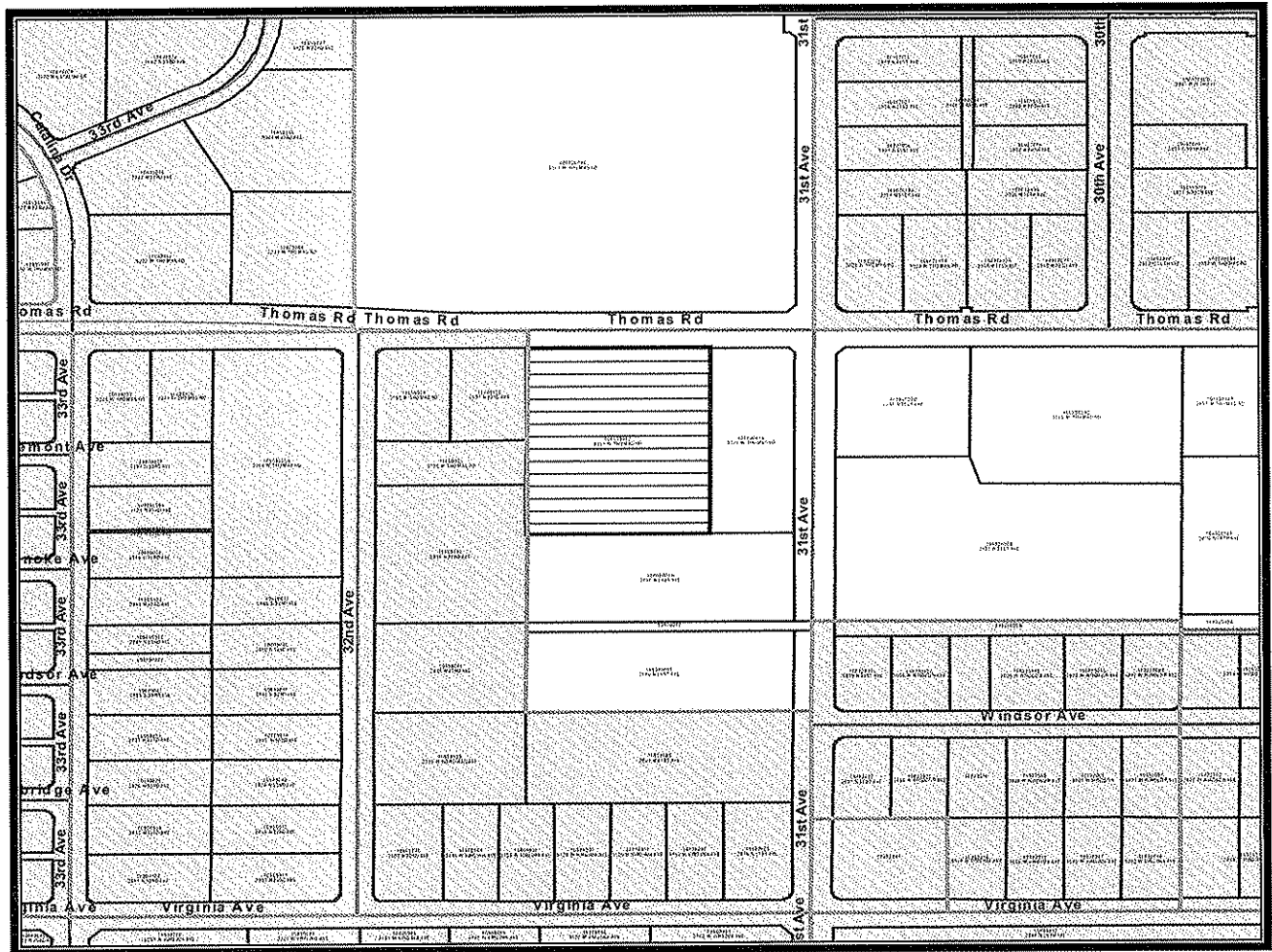
Buyer/Grantee: R & H Investments

Year Built: 1966

Improvement Size: 20,400 SF

Site Area: 131,333 S.F.

LTB Ratio: 6.44:1



**Description:**

This property is a single-tenant, freestanding office/industrial building. Improvements were constructed in 1966 of concrete tilt up walls and built up roofing. The property has approximately 20% office build out and 80% open warehouse space. As of the date of sale, the improvements were reported to be in average condition.

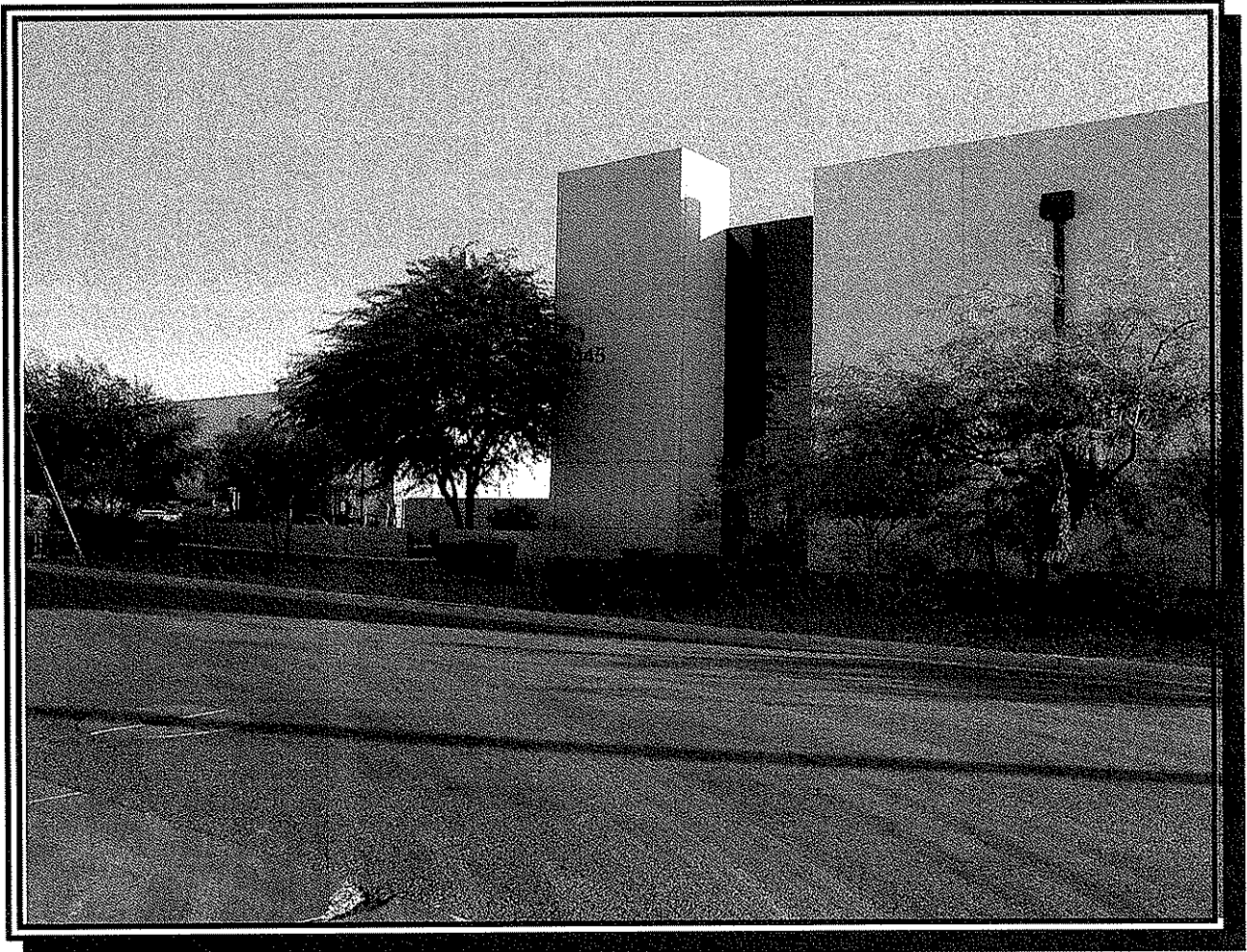
**3 Year Sale History:**

The sellers acquired the property in August 1999 via Warranty Deed. There is a subsequent sale from R & H Investments to St. Mary's Food Bank Alliance dated September 4, 2009 for \$1,930,000 or nearly \$95/SF. According to both the seller and listing broker, the sales price is considered above market and reportedly included the pay-off of a prepayment penalty in excess of \$100,000 on behalf of the sellers. As a result, the prior sale of the property was thought to more closely reflect current market conditions. No other recorded transactions involving this property were discovered within the prior three years.

**Confirmation:**

Jeff Hays, NAI Horizon, Stanley Rogers, Buyer, Costar, Public Records and Affidavit of Value.

**IMPROVED COMPARABLE NO. 2**



Location: 1445 E. Hadley Street  
Phoenix, AZ

Assessor Parcel: 116-53-014

**Sale Data**

Sale Price: \$2,275,000  
Price/SF \$87.68

Date Recorded August 28, 2009  
Terms: 51% down, New Conv. Loan

Docket Number: 09-0802777

2008 Real Estate Taxes: \$40,677.50  
Per Square Foot: \$1.57

Seller/Grantor: Roxie Real Estate Investments, LLC

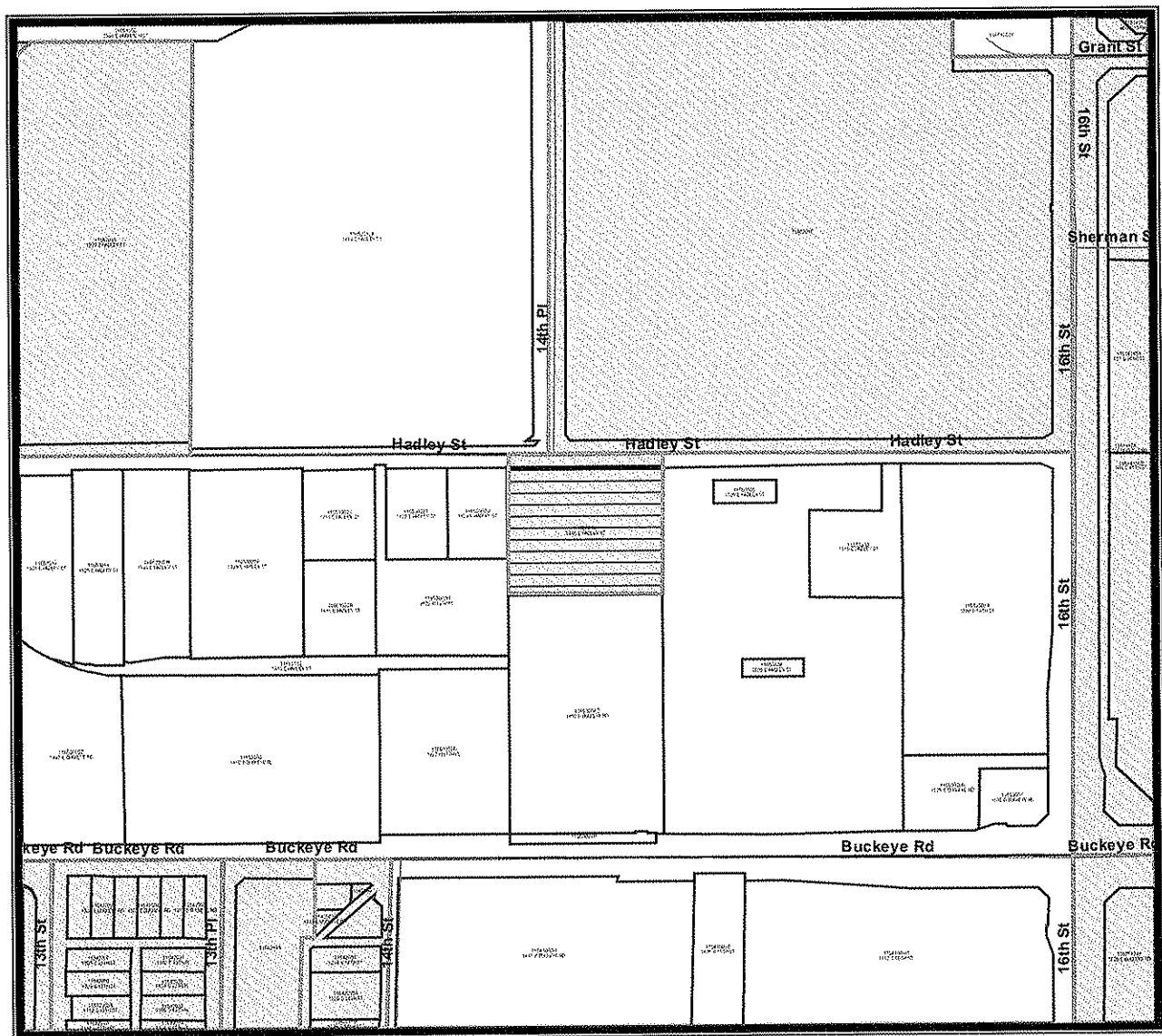
Buyer/Grantee: MDM Marketing Inc.

Year Built: 2003

Improvement Size: 25,947 SF

Site Area: 81,457 S.F.

LTB Ratio: 3.14:1



**Description:**

This property is a single tenant office building constructed in 2003 of concrete tilt up walls and built-up roofing. At the time of sale, the build-out included approximately 8% air conditioned office space, and 24' ceiling height warehouse space. The site has frontage and visibility from Hadley, a lightly traveled, interior street.

**3 Year Sale History:**

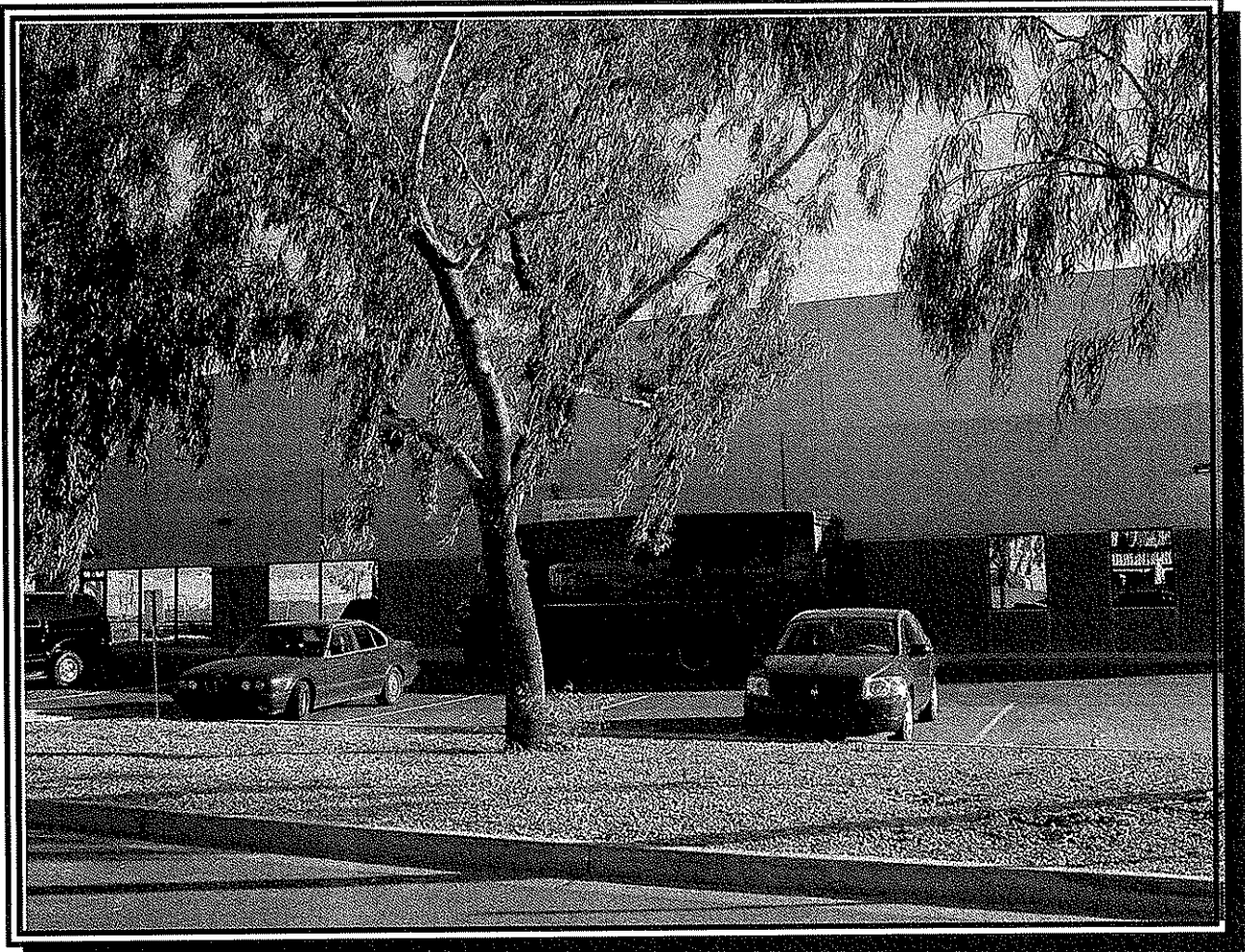
The sellers acquired the property in November 2003 for \$1,715,000. No recorded transactions involving this property were discovered within the prior three years.

**Confirmation:**

Public Records, Costar, and Affidavit of Value.



**IMPROVED COMPARABLE NO. 3**



Location: 4101 W. Gibson Lane      Assessor Parcel: 105-15-016B  
Phoenix, AZ

**Sale Data**

Sale Price: \$2,000,000      Date Recorded: August 7, 2009  
Price/SF \$45.13      Terms: SBA Loan

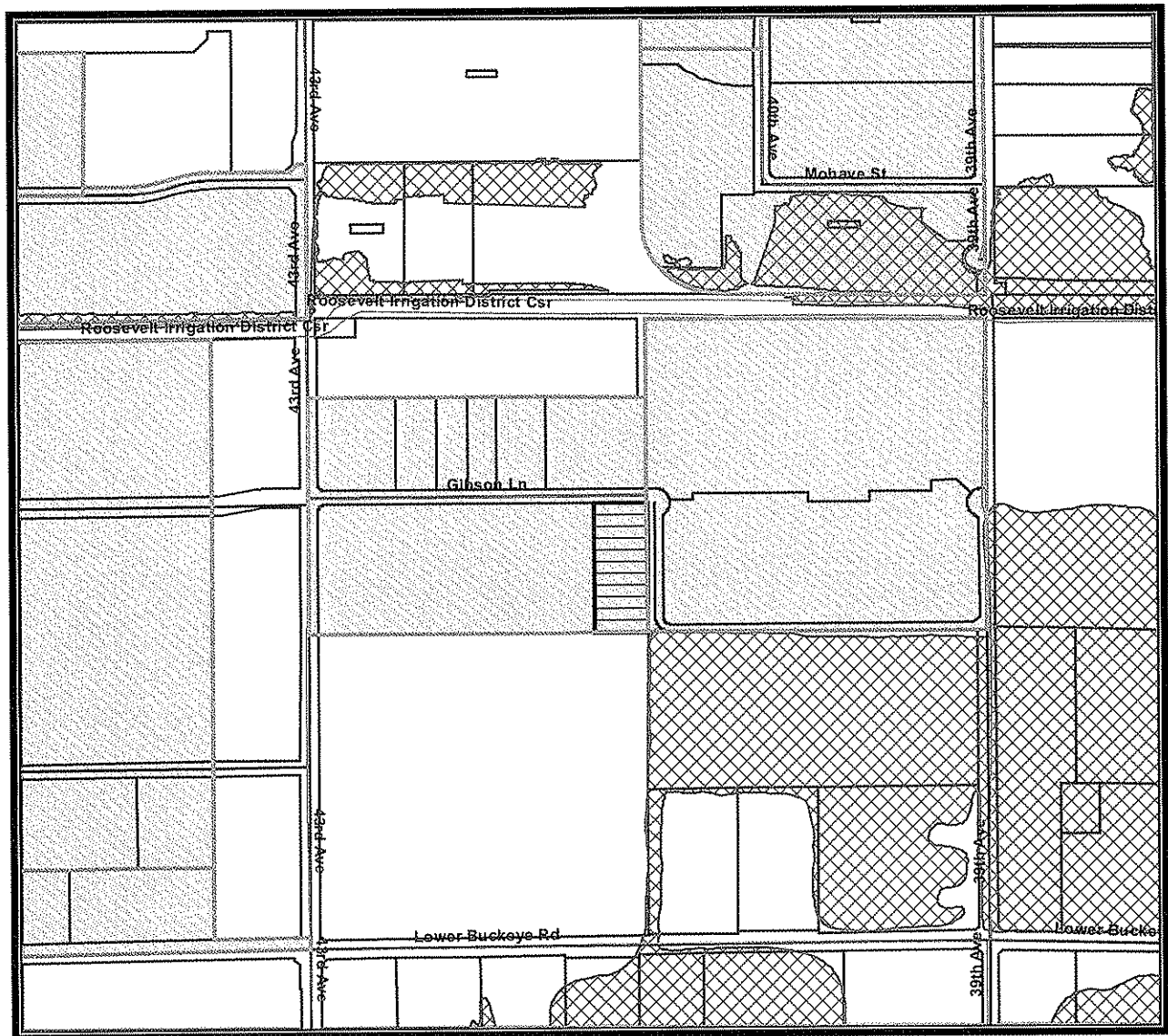
Docket Number: 09-0733326      2008 Real Estate Taxes: \$36,263.08  
Per Square Feet: \$.82

Seller/Grantor: Motown Investment Holdings, LLC

Buyer/Grantee: Sindbad LLC

Year Built: 1991      Improvement Size: 44,316 SF

Site Area: 107,680 S.F.      LTB Ratio: 2.43:1

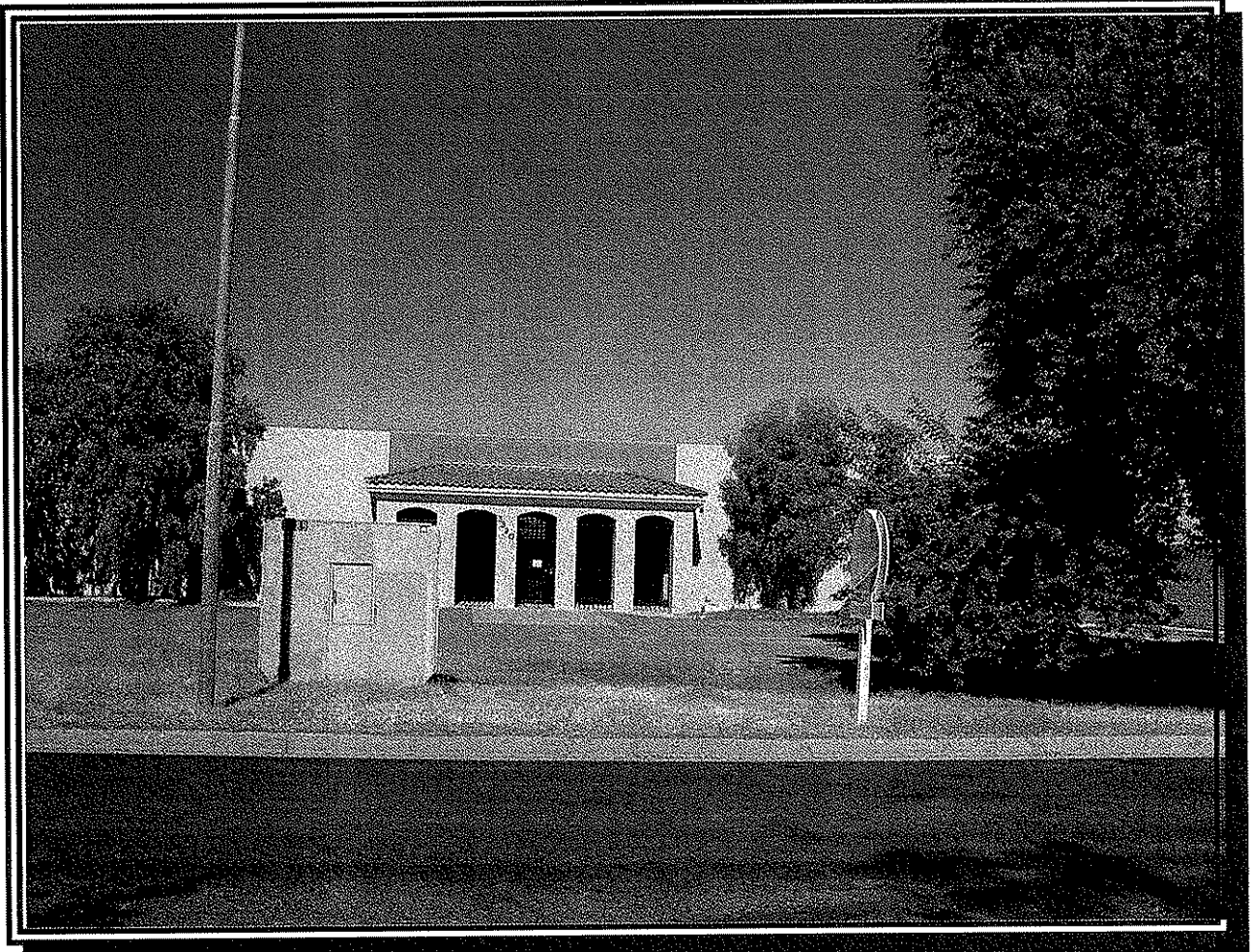


**Description:** This property is located southwest of the near 43<sup>rd</sup> Avenue. The improvements are approximately 44,316 square feet with 12% office build out, 26' ceiling heights and triple truckwell. The site is zoned A-1, by the City of Phoenix.

**3 Year Sale History:** The sellers acquired the property in 2003 for \$225,000. No recorded transfers involving this property were discovered within the prior three years. According to the listing broker, the current sale represented a short sale.

**Confirmation:** Chad Neppel, Listing Broker; Public Records and Affidavit of Value.

**IMPROVED COMPARABLE LISTING NO.4**



Location:	3320 W. Vernon Ave. Phoenix, AZ	Assessor Parcel: 108-09-062A & 108-09-063B
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**Sale Data**

List Price:	\$950,000	Date Recorded: N/A
List Price/SF	\$71.97	Terms: N/A

Docket Number:	09-0733326	2008 Real Estate Taxes: \$29,269.66 Per Square Feet: \$2.22
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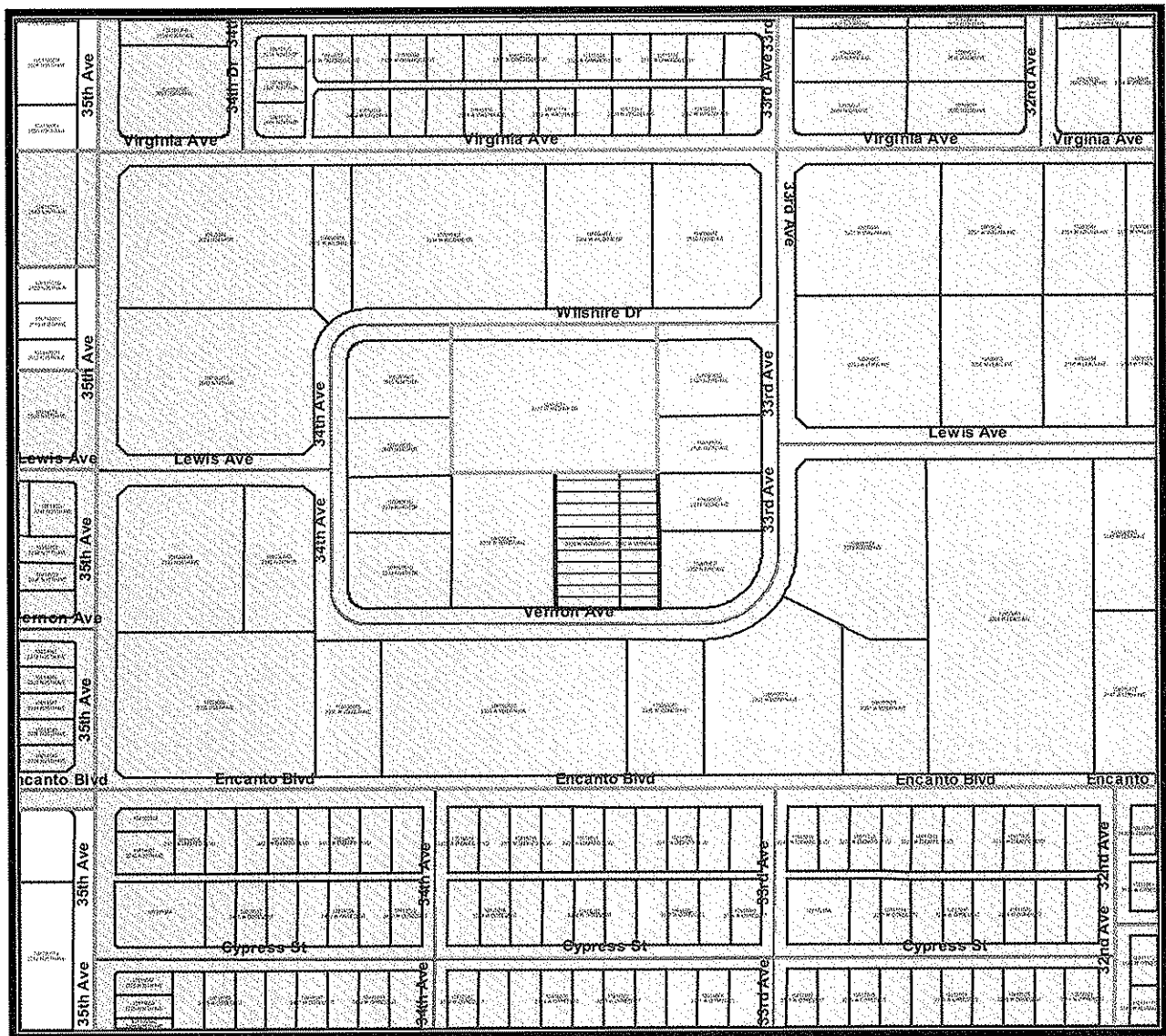
Seller/Grantor:	Preferred Commercial, LLC
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Buyer/Grantee:	N/A
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Year Built:	1981	Improvement Size: 13,200 SF
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Site Area:	56,000 S.F.	LTB Ratio: 4.24:1
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**Description:**

This property is located northwest of the subject in the Encanto Industrial Park. The improvements are approximately 13,200 square feet with 60% office build out and 100% air conditioning. The site is zoned I-P, Industrial Park, by the City of Phoenix.

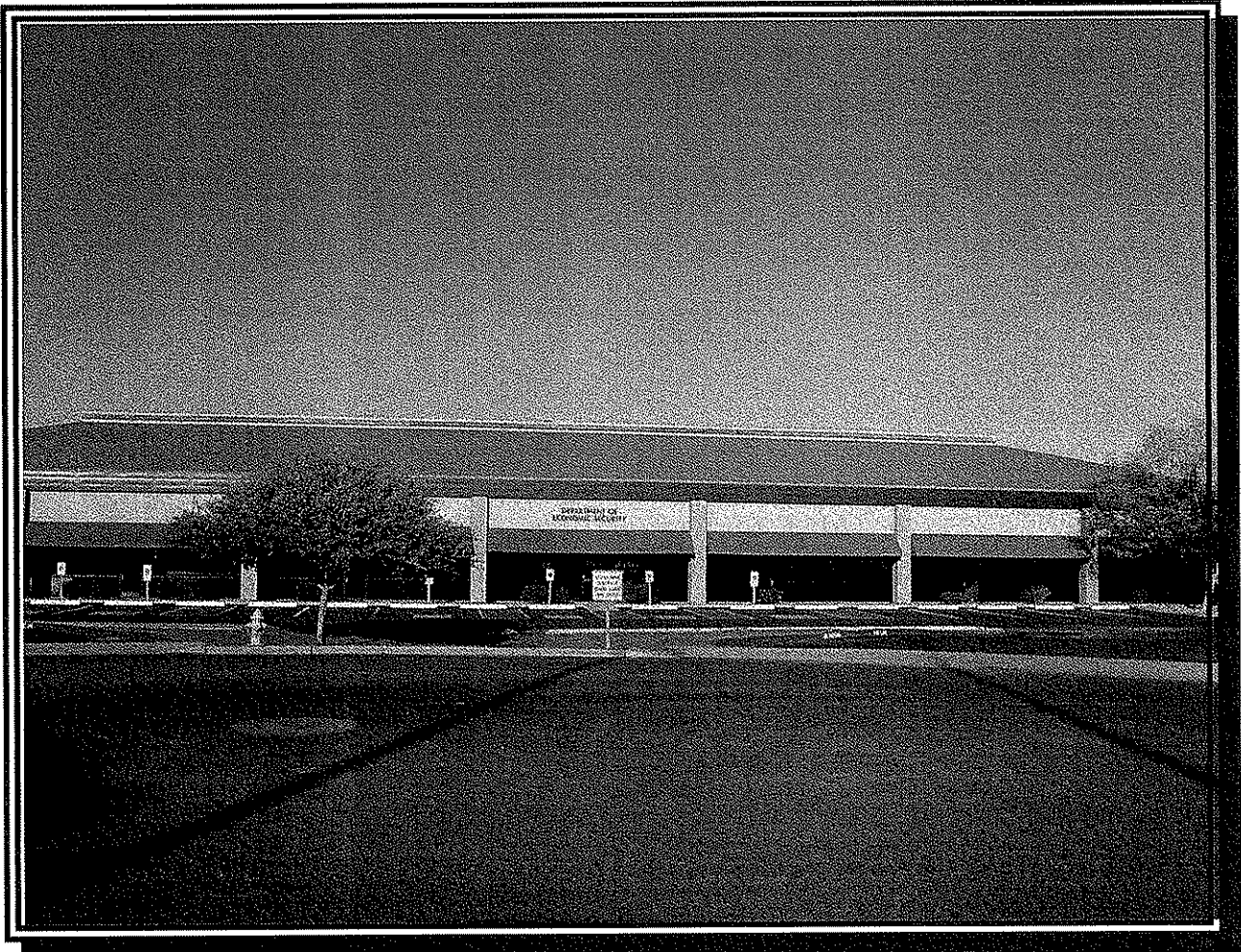
**3 Year Sale History:**

The sellers acquired the property in 1999 for \$662,500. No recorded transfers involving this property were discovered within the prior three years. According to the listing broker, the property is currently in escrow for approximately 10% below list price.

**Confirmation:**

Gary Anderson, Grubb & Ellis; Public Records.

**IMPROVED COMPARABLE LISTING NO.5**



Location: 3161 N. 33<sup>rd</sup> Avenue Assessor Parcel: 108-03-100  
Phoenix, AZ

**Sale Data**

List Price: \$1,395,000 Date Recorded: N/A  
List Price/SF \$69.92 Terms: N/A

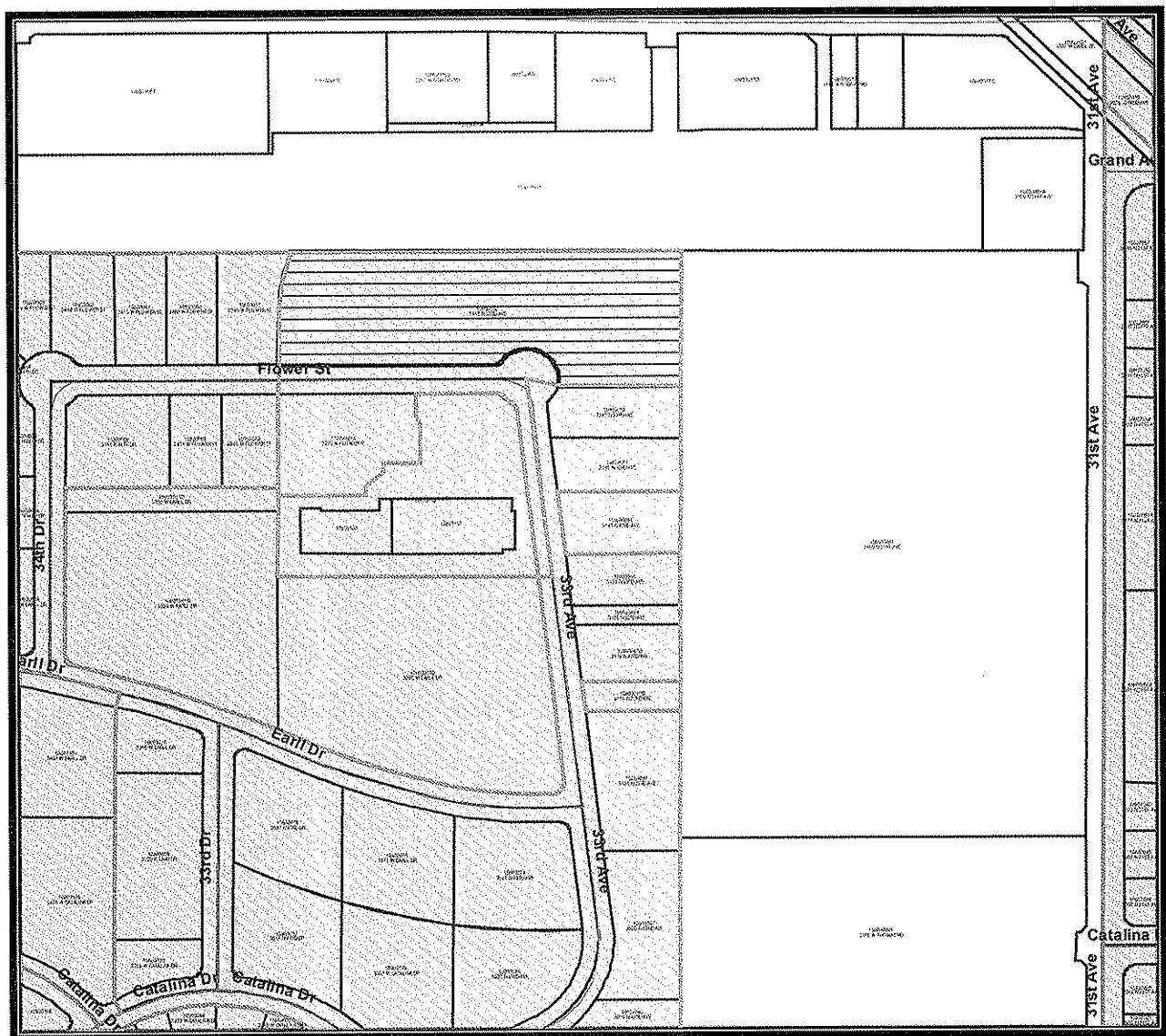
Docket Number: N/A 2008 Real Estate Taxes: \$75,009.40  
Per Square Feet: \$3.76

Seller/Grantor: J2 Flower LLC

Buyer/Grantee: N/A

Year Built: 1983 Improvement Size: 19,950 SF

Site Area: 168,884 S.F. LTB Ratio: 8.47:1



**Description:**

This property is located northwest of the subject in the Phoenix Business Park. The improvements are approximately 19,950 square feet with 100% air-conditioned drop ceiling interior. The site is zoned A-2, Industrial District, by the City of Phoenix.

**3 Year Sale History:**

The sellers acquired the property in 2005 for \$2,520,000. No recorded transfers involving this property were discovered within the prior three years.

**Confirmation:**

Jeff Martindale, Cutler Commercial Listing Broker; Public Records.

## **Discussion of Comparables**

The subject improvements represent a single-tenant industrial office building. The improvements were built in 1967 of block construction with built up roofing. As of the date of appraisal, the subject was considered in average condition for its age with an effective age of 20 years. As noted, the subject interior finish is 100% drop ceiling, air-conditioned space, as seen in most research and development or light manufacturing properties. There were no recent sales of similar sized and improved buildings in the subject market area. Thus, it was necessary to expand the search for comparables to other industrial uses within the subject neighborhood. These comparables represent the most comparable market data discovered as a result of this search.

Comparable No. 1 is the August 2008 sale of a 20,400 square foot office/warehouse building located at 3131 W. Thomas Road. The property sold for \$1,600,000 or \$78.43 per square foot. Access and visibility is via Thomas Road, an arterial street in the area. The improvements are single-story, constructed in 1966 of concrete tilt up walls and built up roof. The subject site is approximately 131,333 square feet, for a land-to-building ratio of 6.44:1, with open paved parking. This comparable is zoned A-1, Industrial, by the City of Phoenix. As of the date of sale, the improvements were considered in average condition for their age.

A downward adjustment is applied to this comparable to reflect its older date of sale and declining market conditions. Adjustment is based upon approximate decline of 10% per year. A downward adjustment is applied to reflect the subject's lower land-to-building ratio. After adjustment, this sale indicates a price for the subject property of approximately \$62.13 per square foot.

Comparable No. 2 is located approximately 3.0 miles southeast of the subject at 1445 E. Hadley Street, in Phoenix. This comparable sold in August 2009 for \$2,275,000, or approximately \$87.68 per square foot. The site is zoned A-2, Industrial District, by the City of Phoenix, the same as the subject. The improvements consist of a single-tenant, freestanding office warehouse building approximately 25,947 square feet. The site is approximately 81,457 square feet with open paved parking. The improvements were constructed in 2003 and were in above-average condition at the time of sale.

This comparable is considered recent enough not to require an adjustment for time. Downward adjustments are applied to this comparable to reflect its superior age/condition. After adjustments this comparable indicates a price of approximately \$61.38 per square foot for the subject.

Comparable No. 3 is the August 2009 sale of a 44,316 square foot distribution building located approximately 3.0 miles southwest of the subject at 4101 W. Gibson Lane, in Phoenix. The sales price of this property is \$2,000,000 or approximately \$45.13 per square foot. The improvements include approximately 12% air-conditioned office space and 26' ceiling height warehouse. The site is zoned A-1, Industrial, per the City of Phoenix and is approximately 2.47 acres. The improvements were constructed in 1991 of concrete tilt up walls and a built up roof. Site improvements include open asphalt paved parking and perimeter fencing. The sale is reported as a short sale and was considered somewhat below market by the listing broker.

When compared to the subject, the unit price of this comparable is adjusted upward to reflect conditions of sale. An upward adjustment for larger improvement size and corresponding lower per unit selling price was applied. After adjustment, this comparable indicates a value for the subject of \$59.58 per square foot.

Comparable Listing No. 4 is located approximately 1.0 mile northwest of the subject at 3320 W. Vernon Avenue, in Phoenix. This comparable is reportedly under contract for approximately 10% less than the asking price of \$950,000 or \$71.97 per square foot. The site is zoned I-P, Industrial Park, by the City of Phoenix. The improvements consist of a single-tenant, freestanding building approximately 13,200 square feet. The site is approximately 1.3 acres with fenced, paved parking. The improvements were constructed in 1981 of concrete tilt up exterior walls and built up roof. The interior finish is reported to be 100% air-conditioned with 60% office build out.

This comparable is considered very similar to the subject's interior finish, though smaller in size. Downward adjustments are applied to reflect the list to sales price ratio indicated by the listing broker. Additional downward adjustment was applied to reflect this comparables smaller improvement size and subsequent higher unit selling price. After adjustments this comparable indicates a price of approximately \$58 per square foot for the subject.

Comparable Listing No. 5 is the active listing of a similar fully built-out industrial building located at 3161 N. 33<sup>rd</sup> Avenue. This property is approximately 1 mile northwest of the subject and is listed for sale at \$1,935,000 or \$69.92 per square foot. The improvements are single-story, constructed in 1983 of CMU block with an asphalt shingle roof. The subject site is approximately 4.3 acres, for a land-to-building ratio of 8.47:1, with open paved parking. This comparable is zoned A-2, Industrial District, by the City of Phoenix.

According to listing broker, the property is also available for lease at an asking rate of \$8.28/SF, Industrial Gross. A downward adjustment is applied to this comparable to reflect its superior site area. After adjustment, the value indicated by this comparable is approximately \$59.44 per square foot.

### **Discussion of Adjustments**

The comparables are adjusted for such differences as property rights conveyed, financing, conditions of sale, market conditions (time), location, and physical characteristics.

#### **Property Rights Conveyed**

Many types of real estate are income producing and sold subject to lease conditions. If these leases reflect other than market rent, then an adjustment is required based on how the market reacts to this difference. In considering the comparable properties, the fee simple interest was exchanged in each instance. Therefore, no adjustments are required.

#### **Financing**

The definition of market value states that the value estimate must be based on terms of cash or the equivalent. Comparable Nos. 1 through 3 all transferred with market financing, considered cash equivalent. As a result, no adjustment for financing terms is required.

#### **Conditions of Sale**

The purpose of this adjustment is to account for any non-market conditions that were reflected in the transaction. This adjustment usually accounts for the motivations of the buyer and the seller. Adjustments for motivations of buyers and sellers are extremely subjective in nature. No paired sale analysis is available and adjustments are typically based on discussions with knowledgeable market participants and other sales in the area. Based upon the information obtained in the confirmation process, Comparable No. 2 is adjusted upward for its short sale status. Comparable No. 4 was adjusted downward for its pending status based upon information provided by the listing broker.

### Market Conditions

The next item that must be considered is an adjustment for market conditions (time). Because there is a difference between the date of valuation and the sale of each comparable, it is necessary to analyze the market to see if any time adjustment, positive or negative, would be warranted. In theory, this is accomplished by abstracting an appreciation or depreciation rate from comparables that sell and then resell or by comparing two very similar properties that have sold at different time periods. The abstracted rates provide an estimate of appreciation or depreciation within various time intervals. Given current market conditions, no such paired sales were available for analysis. As a result, time adjustments were considered based upon general market conditions and input from local market participants.

Only Comparable No.1 transferred over 6 months ago. A downward adjustment is applied to this comparable to reflect declining market conditions based upon input from market participants and the sale and resale/re-listing of Comparable Nos. 3 and 5. Adjustment is estimated at approximately 10% per year. Comparables 2 and 3 are considered recent enough not to require an adjustment for time.

### Location/Access

The subject property and all comparables are located in similar industrial neighborhoods in Central Phoenix. As a result, no adjustments for location were considered warranted.

### Zoning

All of the comparables share the same or similar industrial zoning classification as the subject's A-2. Therefore, no adjustment was made for zoning differences to these comparables.

### Age/Condition

The subject improvements are approximately 42 years old and are considered in average condition for their age with minor signs of deferred maintenance. Comparables 1, 3, 4 and 5 were considered similar in age/condition. Comparable No. 2 was constructed in 2003 and is considerably newer than the subject improvements. As a result, a downward age/condition adjustment is applied to this comparable.

### Land-to-Building Ratio

Comparables 1 and 5 have much higher land-to-building ratios than the subject, resulting in superior parking and site improvements. A downward adjustment for this feature is applied to these comparables based upon input from brokers active in the local market.

### Size

Typically, smaller sized properties tend to sell for a higher unit price than larger properties. The comparable properties range in size from 13,200 to 44,316 square feet. The size of the subject is near the middle of this range at 22,741 square feet. When comparing the price per square foot, after adjustments for other factors, Comparable No. 4, the smallest property, represents the highest price per square foot. As a result, a downward size adjustment is applied to Comparable No. 4. Comparable No. 3, the largest property, represents the lowest price per square foot. Thus, an upward adjustment for larger improvement size is applied to this comparable.

### Office Buildout

The subject improvements are 100% air conditioned and fully built-out with tenant improvements. Comparables 1-3 include evaporative cooled warehouse space with minimal tenant improvements. Typically, an adjustment for superior buildout would be warranted. However, an analysis of the selling prices of the comparables, together with broker conversations, seems to indicate that there is no perceived difference in the market for this feature. One broker indicated that the current supply of inventory is so great, that finding a specific buyer or tenant willing to pay more for interior improvements would be a "needle in a haystack". As a result, no adjustment for interior finish or office buildout was applied.



## **Conclusion**

The comparables provide a range before adjustments of \$45.13 to \$87.68 per square foot. Terms of each of the sales were cash or cash equivalent. After considering the criteria of date-of-sale, size, location, land-to-building ratio, and condition, the adjusted range narrowed to between \$58.29 and \$62.13 per square foot. In the final analysis, nearly equal weight is placed upon all comparables. Significant emphasis is placed upon Comparables 4 and 5 as most similar in interior build out and the most recent market activity. As an active listing of a very similar product, Comparable No. 5 is thought to set the upper limit of value. Based upon the comparable sales presented in this appraisal, a value estimate of \$58 per square foot for the subject property is utilized. Thus, the market value of the subject property via the Sales Comparison Approach is estimated to be:

$$\begin{aligned} &22,741 \text{ Square Feet} \times \$58/\text{SF} = \$1,318,978 \\ &\quad \quad \quad \$1,320,000 \text{ Rounded} \end{aligned}$$

# **COMPARABLE IMPROVED SALES ADJUSTMENT GRID**

Address	Subject 2422 W. Holly Rd Phoenix	Sale 1 3131 W. Thomas Phoenix	Sale 2 1445 E. Hadley St Phoenix	Sale 3 4101 W. Gibson Ln Phoenix	Listing 4 3320 W. Vernon Ave Phoenix	Listing 5 3161 N. 33rd Ave Phoenix
Sale Date		20-Aug-08	28-Aug-09	7-Aug-09	Pending	Active
Sales Price		\$1,600,000	\$2,275,000	\$2,000,000	\$950,000	\$1,395,000
Square Footage	22,741	20,400	25,947	44,316	13,200	19,950
Site Area	53,721	131,333	81,457	107,680	56,000	168,884
<b>Price Per Square Foot</b>		<b>\$78.43</b>	<b>\$87.68</b>	<b>\$45.13</b>	<b>\$71.97</b>	<b>\$69.92</b>
Adjustments:						
Property Rights		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Financing Terms		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Conditions of Sale		\$0.00	\$0.00	\$9.03	(\$7.20)	\$0.00
Date of Sale		(\$9.40)	\$0.00	\$0.00	\$0.00	\$0.00
Adjusted Price Per Sq. Ft.		\$69.03	\$87.68	\$54.16	\$64.77	\$69.92
Location	Average	Average	Average	Average	Average	Average
Adjustment		0%	0%	0%	0%	0%
Zoning		A-1	A-2	A-1	I-P	A-2
Adjustment		0%	0%	0%	0%	0%
Condition/Age	Average	Average	Above Average	Average	Average	Average
Adjustment		0%	-30%	0%	0%	0%
Land to Bldg Ratio	2.36	6.44	3.14	2.43	4.24	8.47
Adjustment		-10%	0%	0%	0%	-15%
Size	22,741	Similar	Similar	Larger	Smaller	Similar
Adjustment		0%	0%	10%	-10%	0%
Net Adjustments						
per SF		-10%	-30%	10%	-10%	-15%
Adjusted Price Per Sq. Ft.		\$62.13	\$61.38	\$59.58	\$58.29	\$59.44

## **Income Approach**

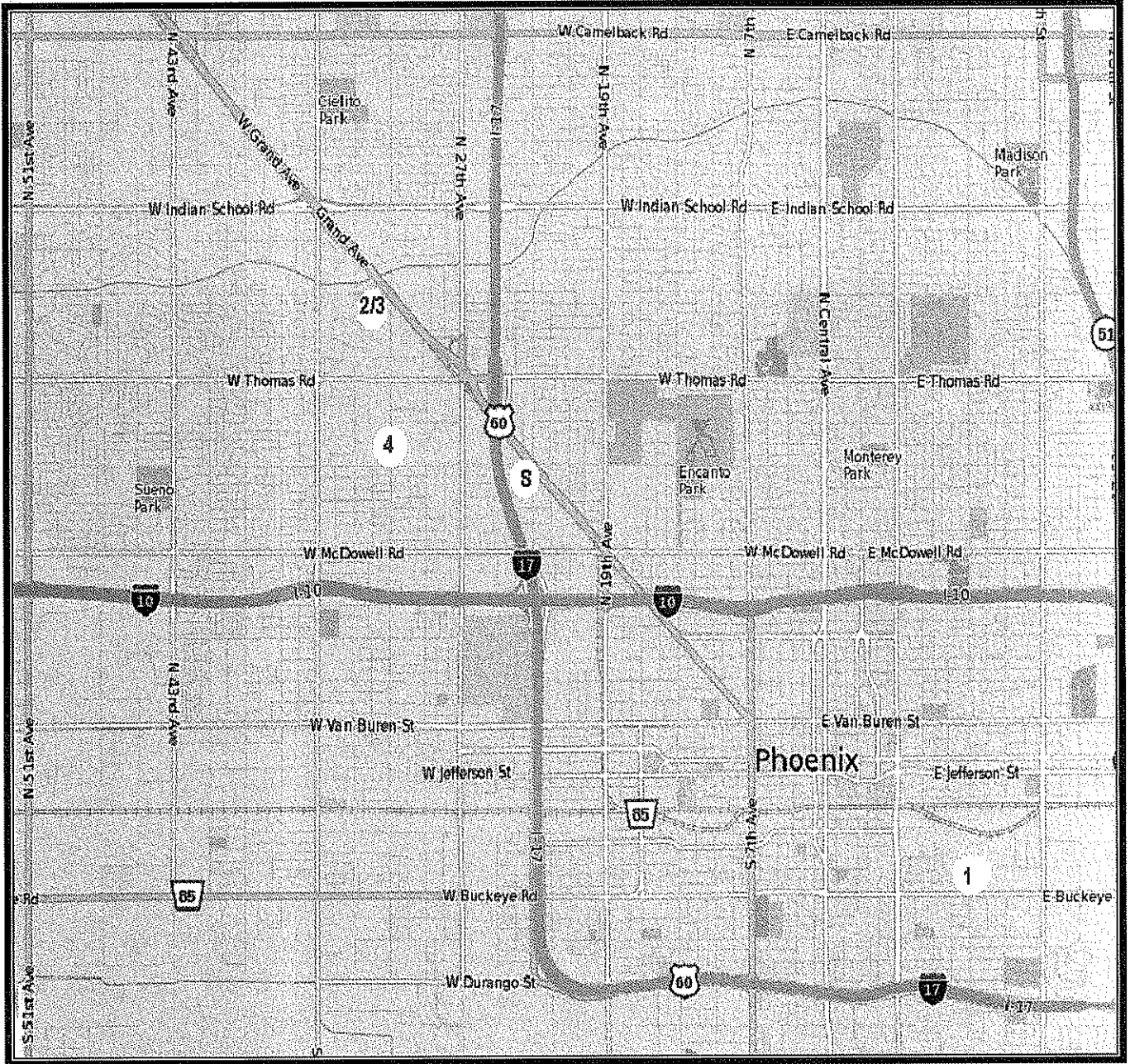
The Income Approach to value is based upon the principle of anticipation. This principle states that the value of a property is based upon the present value of its future benefits. From a purchaser's viewpoint, the most important aspect of an investment property is its income potential.

There are several key steps in estimating the market value of the subject property by the Income Approach. First, the Potential Gross Income of the subject property is estimated by direct comparison with comparable rentals. Second, the expenses associated with operation of the property are estimated and deducted from the Potential Gross Income. The result is an estimate of Net Operating Income for the subject property. The estimate of Net Operating Income may then be converted into an estimate of market value by direct capitalization.

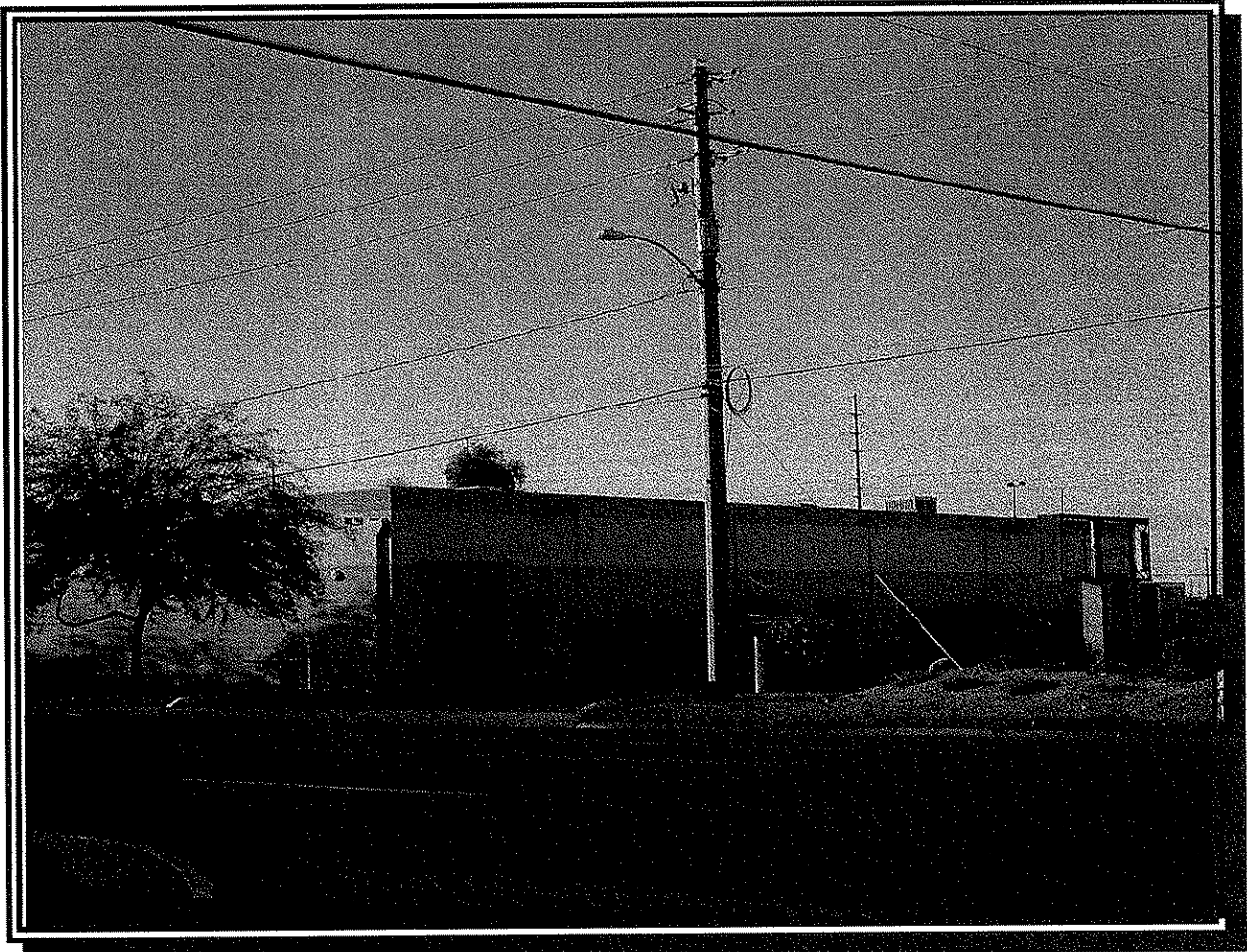
### **Potential Gross Income**

The following industrial office rentals were surveyed to arrive at an opinion of market rent for the subject property. Based upon this analysis, the estimated market rent will be used to arrive at the estimated Potential Gross Income for the subject. The following is a summary of the comparable rentals utilized in this analysis.

## COMPARABLE RENTAL LOCATION MAP



**RENT COMPARABLE NO. 1**



Location: 1146 E. Buckeye Road  
Phoenix, AZ

Year Built: 1986 Improvement Size: 15,400 SF

Site Area: 29,533 S.F. LTB Ratio: 1.92:1

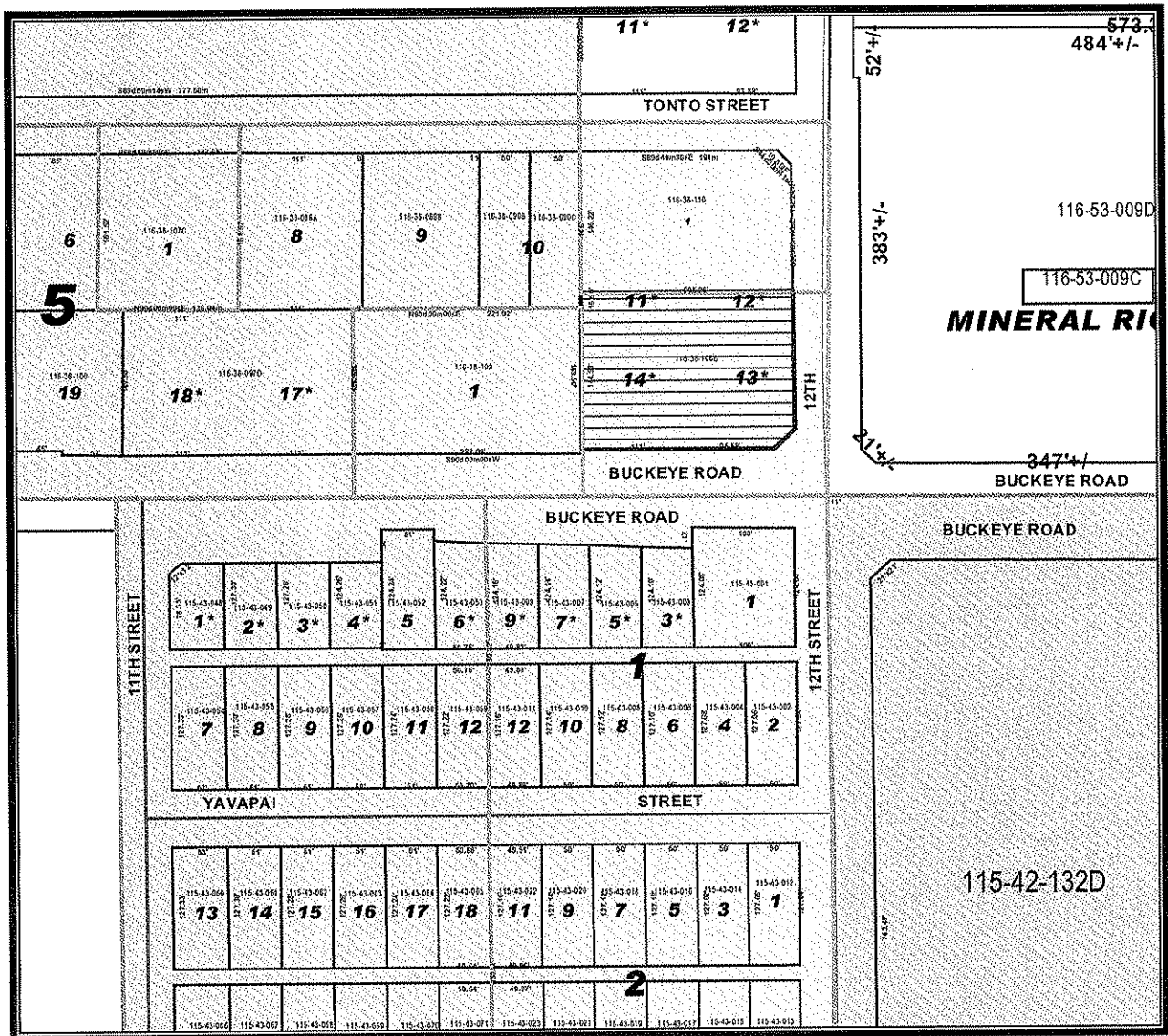
**Rental Data**

Size: 15,400 SF

Monthly Rent: \$7,700 \$0.50/SF

Terms: Triple Net – Tenant pays all expenses

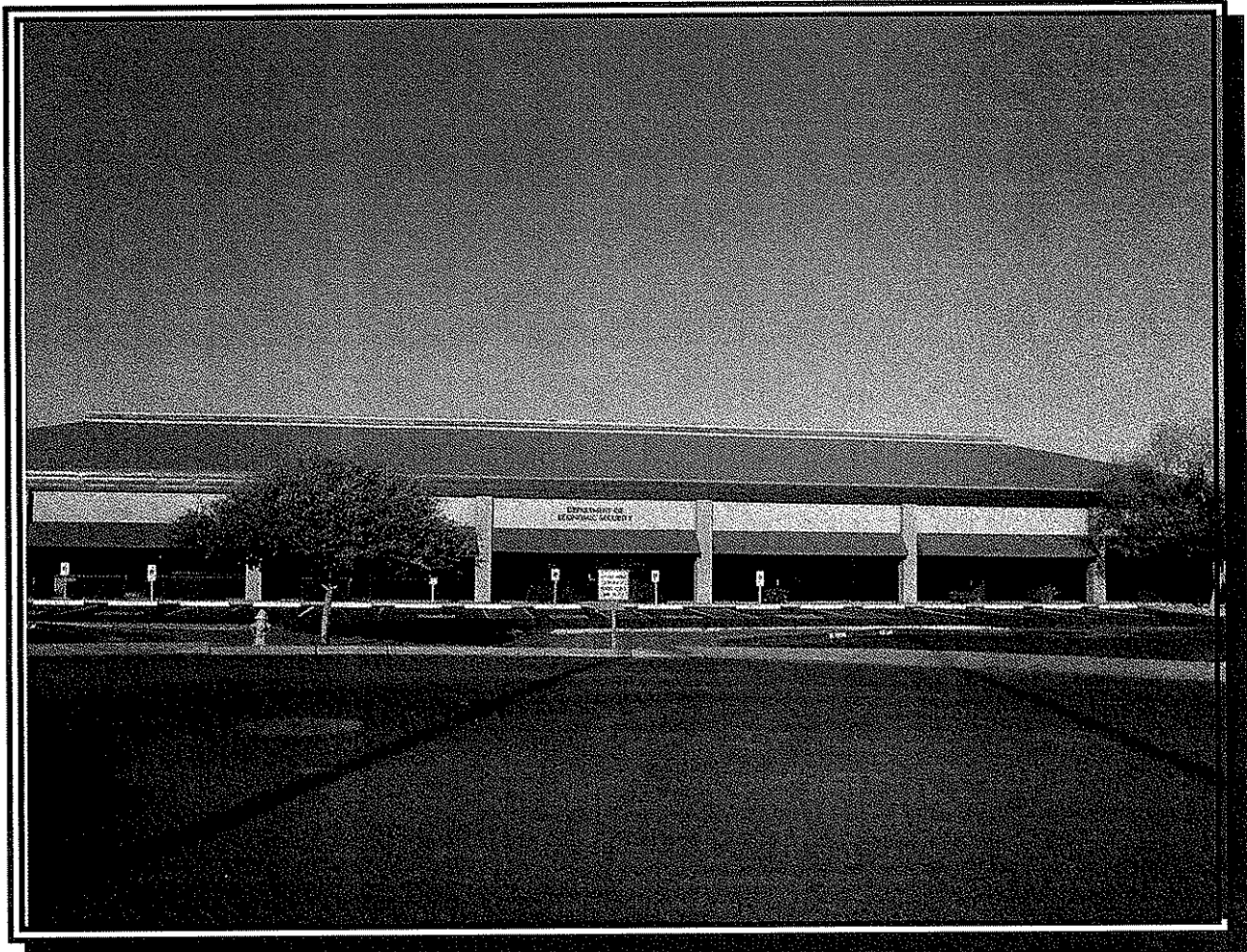
Lease Commencement: November 30, 2006 5-Year term



Description: This is the rental of a single-tenant industrial office/warehouse building. The improvements were constructed in 1986 and are reported in average condition. The property is 15,400 square feet with approximately 17% office build out, and 15' clear ceiling height warehouse space. Site improvements include 26 uncovered paved parking spaces, a loading dock and roll-up door.



**RENT COMPARABLE NO. 2**



Location: 3161 N. 33<sup>rd</sup> Avenue  
Phoenix, AZ

Year Built: 1983 Improvement Size: 19,950 SF

Site Area: 168,884 S.F. LTB Ratio: 8.47:1

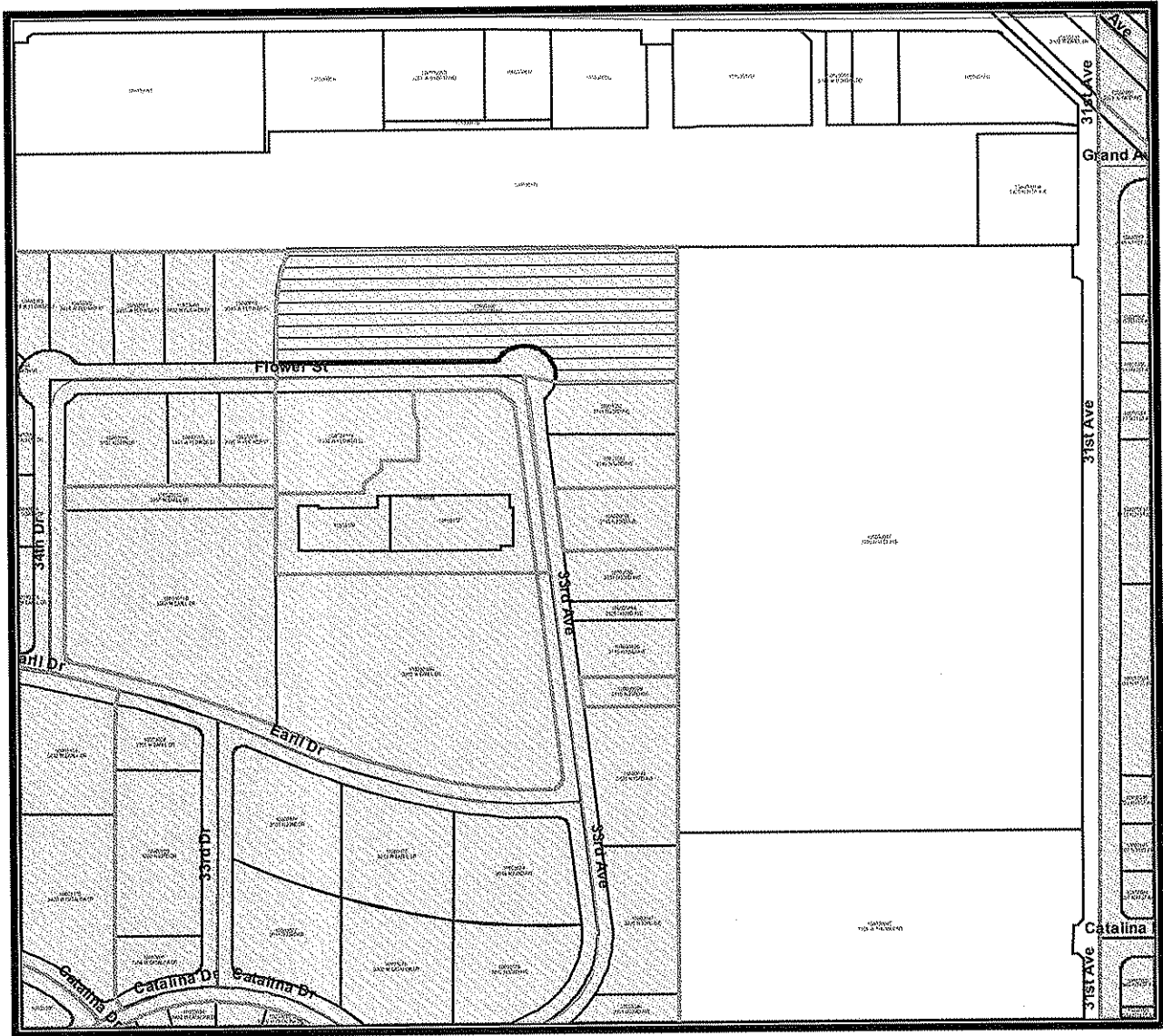
**Rental Data**

Size: 19,950 SF

Monthly Rent: \$19,118 \$0.96/SF

Terms: Full Service- Owner pays all expenses, including janitorial

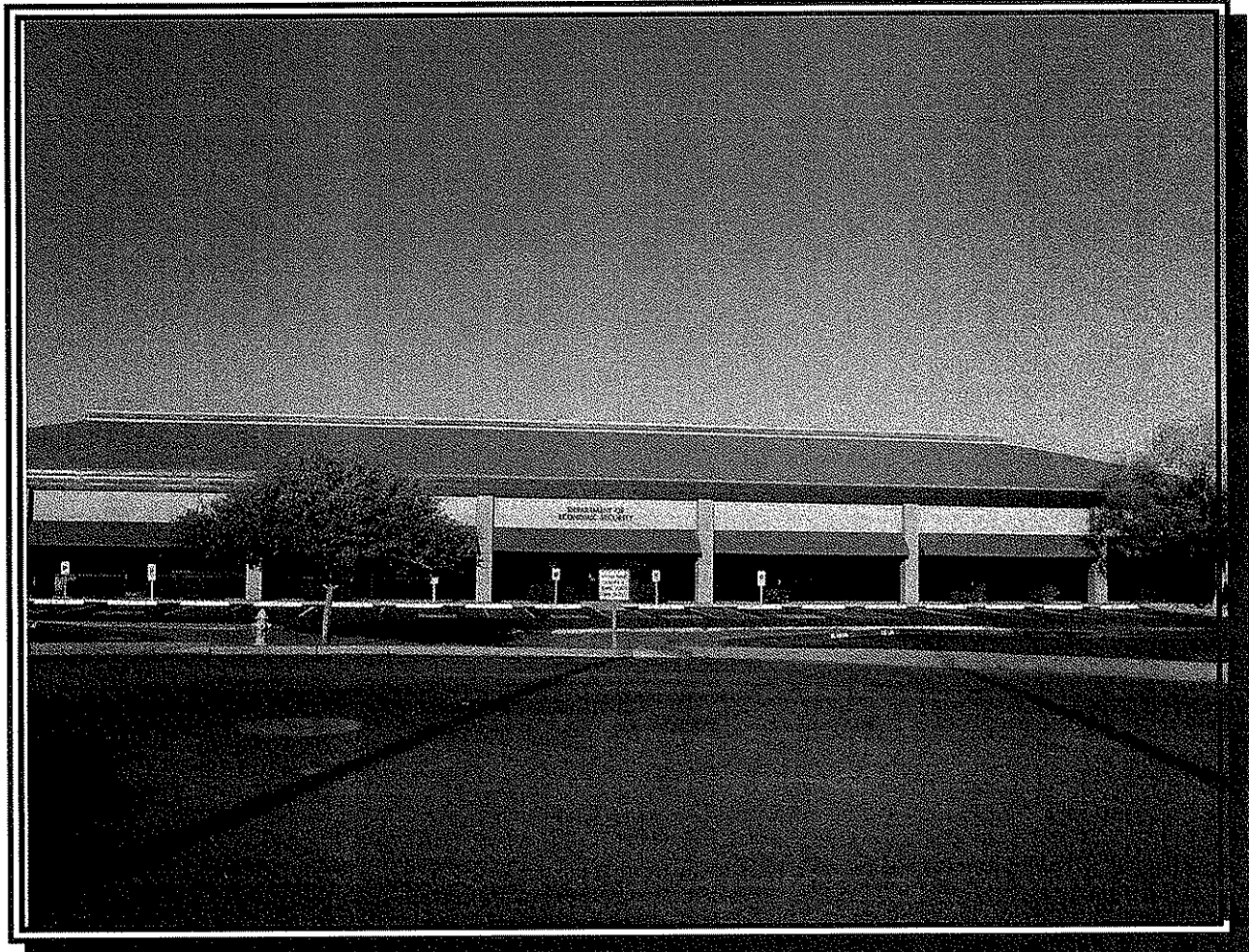
Lease Commencement: August 1, 2004 5-Year term



Description: This is the recently expired lease of a 19,500 square foot, industrial office building with 100% air-conditioned, drop ceiling build-out. The broker reports that rental rates have declined since this lease agreement. The improvements were constructed in 1983 and are reported in average condition.



**RENT COMPARABLE NO. 3**



Location: 3161 N. 33<sup>rd</sup> Avenue  
Phoenix, AZ

Year Built: 1983 Improvement Size: 19,950 SF

Site Area: 168,884 S.F. LTB Ratio: 8.47:1

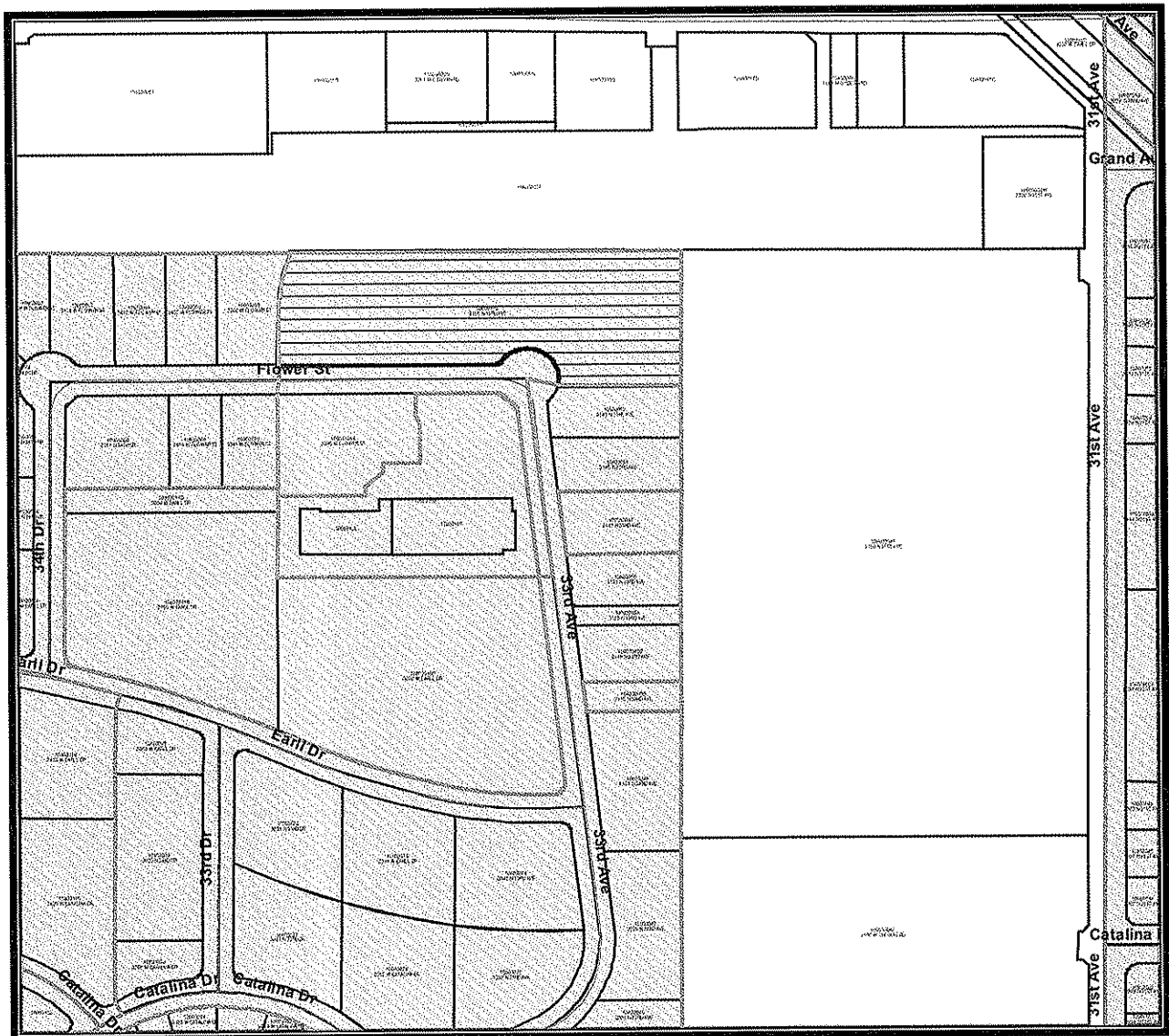
**Rental Data**

Size: 19,950 SF

Asking Monthly Rent: \$13,765 \$0.69/SF

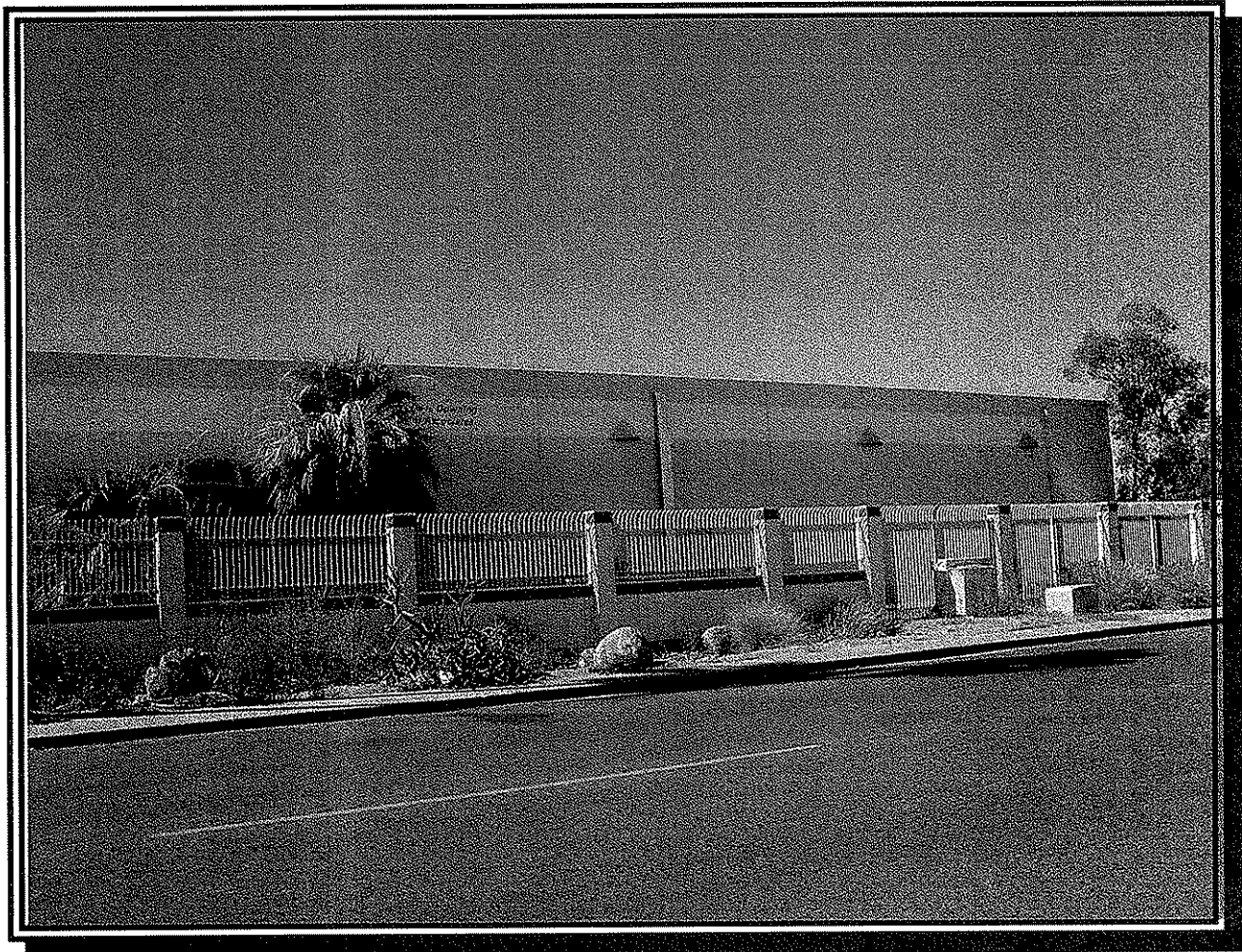
Terms: Full Service- Owner pays all expenses, including janitorial

Lease Commencement: Negotiating 3 to 5-Year term



Description: This is the current active rental of Comparable No. 2. The broker reports that the property is in negotiations for a 3 to 5 year lease agreement at a rate somewhat below the asking rate of \$0.69 per foot per month, full service.

**RENT COMPARABLE NO. 4**



Location: 2330 N. 31<sup>st</sup> Avenue  
Phoenix, AZ

Year Built: 1980 Improvement Size: 15,400 SF

Site Area: 55,365 S.F. LTB Ratio: 3.60:1

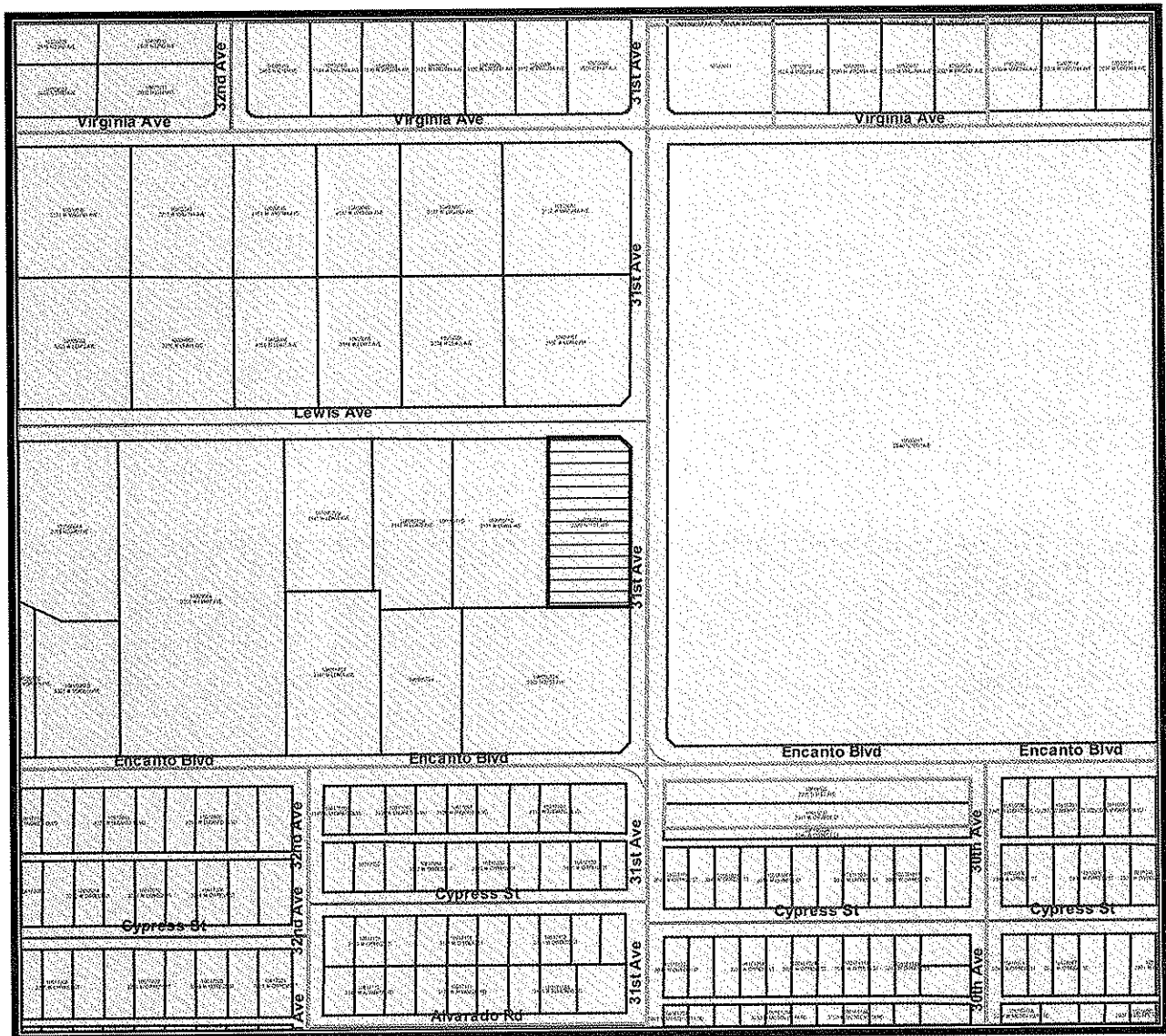
**Rental Data**

Size: 15,400 SF

Monthly Rent: \$6,930 \$0.45/SF

Terms: Triple Net, Tenant pays all expenses.

Lease Term: 2-3 Years



Description: This is the active listing of a single-tenant industrial office building approximately ½ mile northwest of the subject on 31<sup>st</sup> Avenue. The leasing broker reports the asking rate to be \$.45/SF/Month on a triple net basis. The improvements were constructed in 1980 and are reported in average condition. The property has 26% office build out, 20' clear height warehouse ceilings, 2-truckwells and uncovered paved parking with perimeter fencing.

### **Discussion of Rental Comparables**

A survey of rental properties similar to the subject showed that rental rates are typically quoted as triple net rates, with the tenant paying all expenses. Rental Comparables 2 and 3 are quoted on a Full Service basis, with owners paying all expenses. For the purpose of this analysis, triple net monthly rental rates were considered to be most reflective of achievable market rents.

Comparable No. 1 is a single-tenant office warehouse building located about 2.5 miles southeast of the subject at 1146 E. Buckeye Road. The improvements are approximately 15,400 square feet and considered in average condition for their age with open paved parking. The improvements have approximately 17% office buildout with 15' clear ceiling height warehouse space. The current lease has approximately 3 years remaining and is reported to be \$7,700 per month, or \$0.50 per square. Terms of the lease were triple net, with the tenant paying all expenses. When compared to the subject, this property is considered similar in size and utility. The adjusted rate for this comparable is \$0.50 per foot, per month.

Comparable Nos. 2/3 is located approximately one mile northwest of the subject at 3161 N. 33rd Avenue. This property is the most similar improvements to the subject found within the subject market area. The property is 100% air-conditioned with drop ceiling and fully build-out. This comparable is actively listed for sale or lease and the most recent tenant just vacated the property in August 2009. For purposes of analysis, the terms of the most recent lease as well as the current asking price were utilized to bracket a most probable lease rate for the subject. According to the leasing agent, the prior tenants were on a five-year full service lease at a rate of approximately \$0.96 per foot per month. The agent acknowledged that current rates have declined since the date of this lease agreement. This is verified by current asking rates for the property of \$0.69 per foot per month. Terms of the prior lease and current asking price are full service, with the owner paying all expenses.

Applying a downward adjustment to reflect declining market condition and a downward adjustment for the full service terms of the lease results in adjusted rental rates of \$0.50 to \$0.55 per square foot, per month, triple net.

Comparable No. 4 is a single tenant industrial office building located about ½ mile northwest of the subject at 2330 N. 31<sup>st</sup> Avenue. The improvements consist of a 15,400 square foot concrete tilt up building with built up roof cover. According to the leasing broker, the asking rate is \$0.45 per foot, per month on a triple net basis. Interior buildout includes approximately 26% office with 20' clear height warehouse space, 2 truck wells, uncovered parking and perimeter fencing. This property is considered similar to the subject in location and condition, indicating a lease rate of \$0.45 per foot per month.

In addition to the preceding comparables, the following brokers shared their opinion of current market rents in the subject neighborhood.

Broker opinion of market rent			
<u>Name</u>	<u>Firm</u>	<u>Monthly Lease Rate/SF</u>	<u>Terms</u>
James McCabe	Realty Executives	\$0.83	NNN
Jeff Hays	NAI Horizon	\$0.50	NNN
Justin LeMaster	Sperry Van Ness	\$0.35	Gross

# COMPARABLE RENTALS SUMMARY

	Subject	Rental 1	Rental 2	Rental 3	Rental 4
Address	2422 W. Holly Rd Phoenix	1146 E. Buckeye Phoenix	3161 N. 33rd Ave Phoenix	3161 N. 33rd Ave Phoenix	2330 N. 31st Ave Phoenix
Lease Date		1-Nov-06	1-Aug-04	Asking	Asking
Monthly Rental		\$7,700	\$19,118	\$13,765	\$6,930
Terms		NNN	Full Service	Full Service	NNN
Length of lease		5 Year	5 Year	Asking	Asking
Improvement size	22,741	15,400	19,950	19,950	15,400
Rentable Square Footage	22,741	15,400	19,950	19,950	15,400
Site Area	53,721	29,533	168,884	168,884	55,365
Monthly Rent Per Square Foot		\$0.50	\$0.96	\$0.69	\$0.45
Location	Average	Average 0%	Average 0%	Average 0%	Average 0%
Condition	Average	Average 0.00%	Average 0.00%	Average 0.00%	Average 0.00%
Date of Lease		01-Nov-06 0%	01-Aug-04 -28%	Asking 0%	Asking 0%
Terms		NNN 0.00% 0%	Full Service -20.00% -48%	Full Service -20.00% -20%	NNN 0.00% 0%
Adjusted Rate		\$0.50	\$0.50	\$0.55	\$0.45



## **Conclusion**

In the analysis of comparable rental properties, it is important that they represent a reasonable substitute type of property from a tenant's perspective. As no two properties are identical, variations in rental rates occur, attributable to factors such as location, size, condition, etc. Achievable rental rates are therefore dependent upon many factors. Although there were no similar improvements leased in the subject's immediate neighborhood, all of the comparable properties chosen for analysis are thought to represent reasonable substitutions for the subject property.

The adjusted range of rental rates indicated by the comparables is between \$0.45 and \$0.55 per square foot, monthly. Thus, based upon this data and input from local leasing agents, market rent for the subject is estimated at \$0.50 per square foot, monthly on a triple net.

## **Vacancy and Credit Allowance**

An allowance for vacancy and credit loss is deducted from the estimate of Potential Gross Income. The deduction is made to account for periods of vacancy during tenant turnover and for nonpayment of rent.

The subject property is a single-tenant building. Therefore, the property will either be 100% vacant or 100% occupied at all times. As exhibited by the rental comparables, typical lease terms of properties similar to the subject are written for 3 to 5 years. The average time required to re-lease a property like the subject is estimated to be four to six months. Based upon this information, an estimate of a typical lease period of five years followed by approximately four to six months of vacancy is applied. Therefore, a stabilized vacancy and credit loss of 6.7% to 10.0% is indicated. Additionally, second quarter industrial trends produced by Grubb & Ellis reports overall vacancy rates in the subject's submarket of 7.5% to 8.0%. An estimate near the middle of the range at 8% is selected and applied to the Potential Gross Income estimate.

## **Operating Expenses**

As noted, the triple net lease structure allows the landlord to pass all operating expenses through to the tenant. However, an estimate of actual expenses is required to calculate the cost of vacancy associated with this lease structure. Actual expenses for the subject were utilized when available, with estimates made based upon comparable properties and market data when actual data is not available.



### Professional Management

Professional management fees typically run 4% to 8% of effective gross income for properties similar to the subject, according to brokers active in the local market. As a single-tenant building, the management expense would most likely be near the lower end of the range. Thus, a fee of 4% is applied to the subject's Effective Gross Income.

### Taxes

The subject is tax exempt. Therefore, estimated taxes of \$1.25/SF or \$28,426, based upon the average taxes of the comparable sales shall be utilized.

### Insurance

Based upon quotes provided by insurance carriers, the subject's insurance premium is estimated at approximately \$0.20 per foot or \$4,548 annually.

### Utilities

Subject actual utilities are reported to be nearly \$15,000 per month. However, during times of vacancy this expense would be significantly less. Thus, an estimate of approximately 10% of actual, or \$1,500 per month is applied to cover all utilities that cannot be passed through to a tenant.

### Repairs and Maintenance

Repair expenses are estimated based upon the expenses of comparable properties within the subject market area. An estimate of \$0.20 per square foot, or \$4,548, for repairs is considered within industry norms and will be applied in the Stabilized Income Statement.

### Miscellaneous

This category is intended to cover such items as legal, accounting, and other non-recurring expenses. An estimate of 2% of Effective Gross Income is utilized.

### Cost of Vacancy

This figure is calculated based upon the stabilized vacancy rate and estimate of expenses passed through to the tenants. The total of taxes, insurance, utilities and repairs for the subject is estimated at \$41,533 or \$1.83 per square foot. This figure is adjusted to reflect the estimated 8% stabilized vacancy rate.

### Reserves for replacement

Typically, a replacement allowance provides for the periodic replacement of building components that wear out over time, more rapidly than the building itself and must be replaced during the buildings economic life. Components typically associated with reserve replacements include; floor coverings, heating/cooling units, roof coverings, driveways, and parking lots. None of the comparables utilized for derivation of a capitalization rate included reserves for replacements as a line item expense. Thus, reserves for replacement are built into the resulting capitalization rate, and is not deducted from the following stabilized operating statement as a line item expense.

### **NET OPERATING INCOME**

The Net Operating Income is calculated by deducting the vacancy, credit loss and operating expenses from the Potential Gross Income. The result is an estimate of Net Operating Income of \$117,186. A reconstructed operating statement follows.

<i><b>PGI @</b></i>	<i><b>\$0.50 Per S.F/Month</b></i>	<i><b>\$136,446</b></i>	
<i><b>Vacancy @</b></i>	<i><b>8.00%</b></i>	<i><b><u>\$10,916</u></b></i>	
<i><b>EGI</b></i>			<i><b>\$125,530</b></i>
<i><b>Less Expenses</b></i>			
	<i><b>Cost of vacancy @ \$1.83</b></i>	<i><b>per SF</b></i>	<i><b>\$3,323</b></i>
	<i><b>mgmt @ 4.00%</b></i>	<i><b>of EGI</b></i>	<i><b><u>\$5,021</u></b></i>
<i><b>Total Expenses</b></i>			<i><b><u>\$8,344</u></b></i>
<i><b>NOI</b></i>			<i><b>\$117,186</b></i>

## CAPITALIZATION

Capitalization is a method used to convert income into an estimate of value. There are two common methods of capitalization, Direct and Yield. Direct capitalization is the most widely use method of converting an income estimate to market value for a stabilized property. A single-tenant property, like the subject property, may be purchased by either an owner/user or an investor. Direct capitalization is the choice of many investors because of its overall simplicity to calculate. Therefore, in an effort to best simulate the most probable buyers method of analysis, direct capitalization will be utilized.

A survey of industrial office buildings indicated that many are leased, while many are owner-occupied. The following properties indicate a range of Capitalization rates from 7.24% to 9.79%. In addition to these properties, Rental Comparable No. 1 sold while leased at a cap rate of 9.2%. Published data from Colliers International reports 3<sup>rd</sup> quarter cap rates in the industrial sector at an average of 8.6%.

DIRECT CAPITALIZATION RATE COMPARABLES				
Property Address	Square Footage	Sales/List Price	NOI	Cap Rate
12814 N. 28 <sup>th</sup> Drive	22,541	\$3,200,000	\$231,747	7.24%
17650 N. 25th Avenue	17,021	\$995,000	\$97,400	9.79%
2014 W. Buckeye Rd	9,331	\$686,000	\$64,484	9.40%
4502 W. Monterosa	124,394	\$10,272,500	\$821,000	7.99%

The resulting range provided by the comparables and published data is from 7.24% to 9.79%. Based upon current market conditions, condition of the subject improvements and associated risk, a Capitalization near the middle of the range at 8.9% is utilized. Applying this rate to the estimated Net Operating Income of the subject results in an estimate of market value:

$$\$117,186 / .089 = \$1,316,702$$

Therefore, my opinion as to the Market Value Estimate of the subject's fee simple interest, as of October 2, 2009, via the Income Approach, is estimated at \$1,320,000, rounded.

## **Reconciliation/ Value Conclusion**

The reconciliation is the final step in the valuation process. The appraiser evaluates the merits of each approach utilized in the report to conclude to a single market value estimate. Although all three approaches were considered, only two of the three traditional approaches to value were utilized to estimate the market value of the subject property. Due to the age of the subject improvements, the Cost Approach was not considered a necessary method of analysis for the subject property.

The overall reliability of the Income Approach in estimating the subject property's market value is considered good. Industrial office buildings similar to the subject are often purchased by investors who analyze and rely upon the cash flow of the project. As a result, adequate support was discovered for estimates of Potential Gross Income and operating expenses. Overall, the Income Approach is considered to provide equal support for the indication of value.

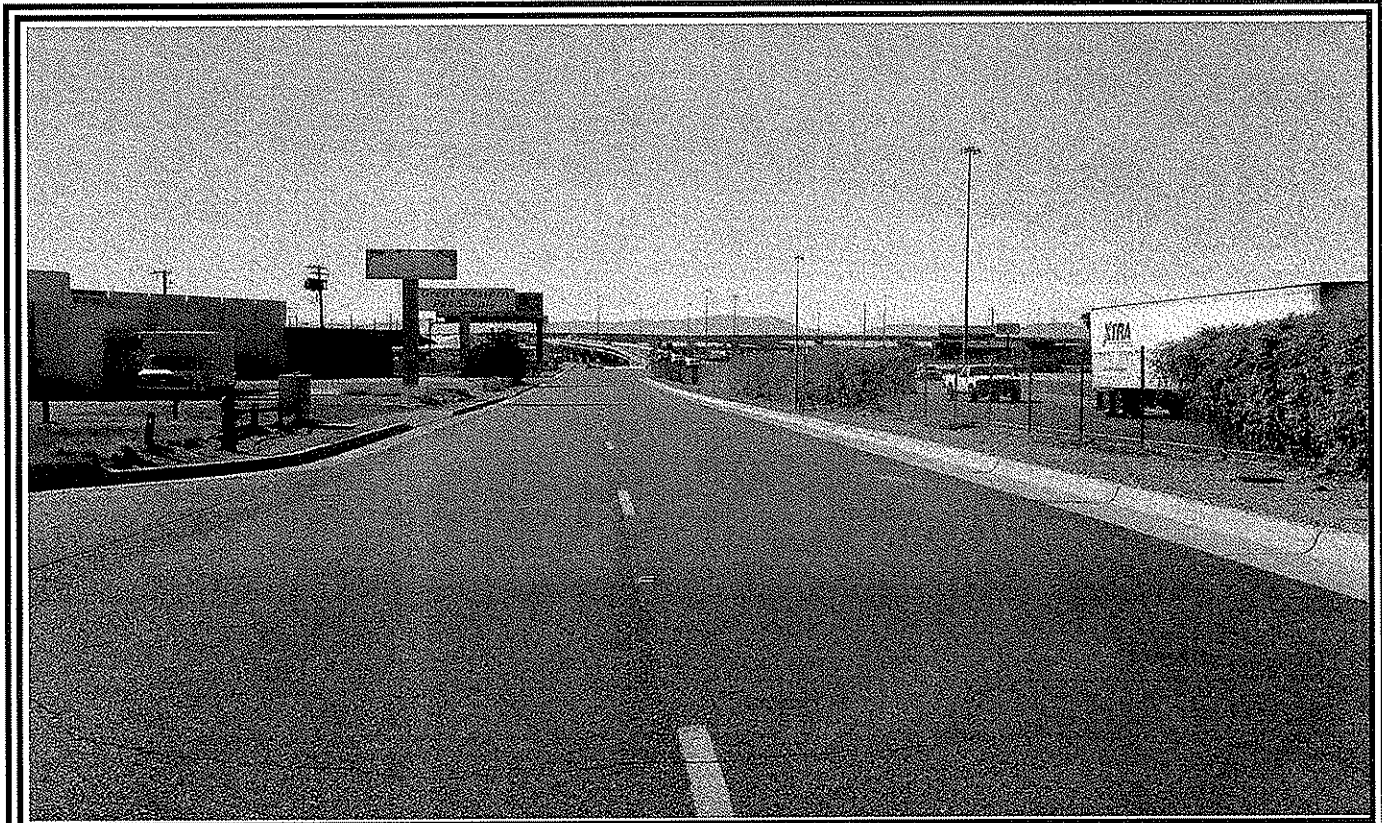
In the Sales Comparison Approach, the more comparable and plentiful the sales information, the more reliable the value estimate. My research of the subject's market area did not result in any recent sales of similar industrial properties with 100% air-conditioning and build-out. As a result, sales of office/warehouse properties and active listings of fully improved industrial properties were used in an attempt to bracket the subject's marketability. The comparables selected for analysis in the Sales Comparison Approach represent the best, most comparable market data discovered. Buyers and sellers in this market segment typically place significant emphasis upon this approach when selling and purchasing comparable properties. Therefore, this approach is considered to have equal emphasis in the indication of market value for the subject property.

**My opinion of the "AS IS" market value of the fee simple interest of the subject property  
as of October 2, 2009 is estimated at:**

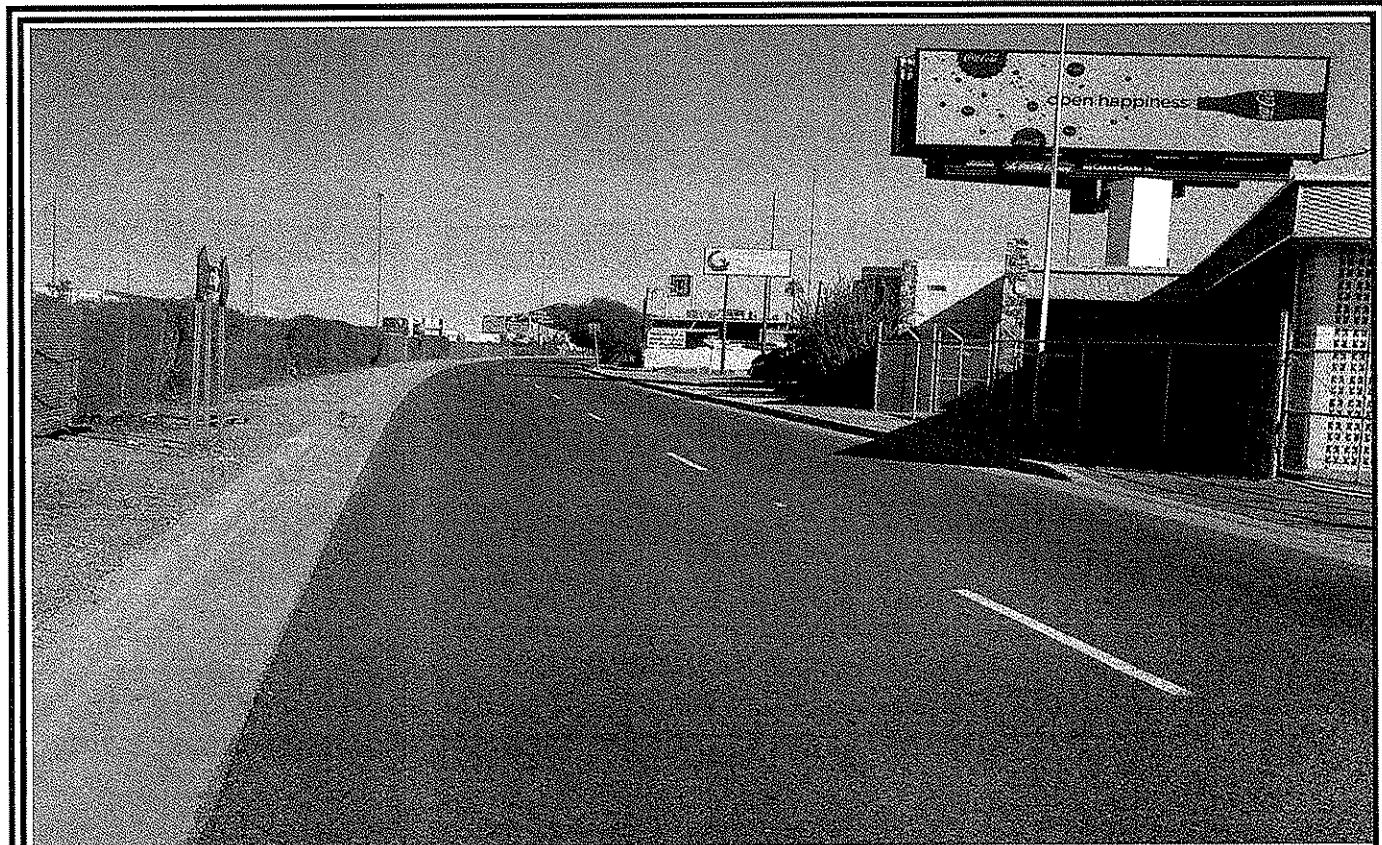
**\$1,320,000  
ONE MILLION THREE HUNDRED TWENTY THOUSAND DOLLARS**

## **ADDENDUM**

SUBJECT PHOTOGRAPHS



View south on I-17 Frontage Road



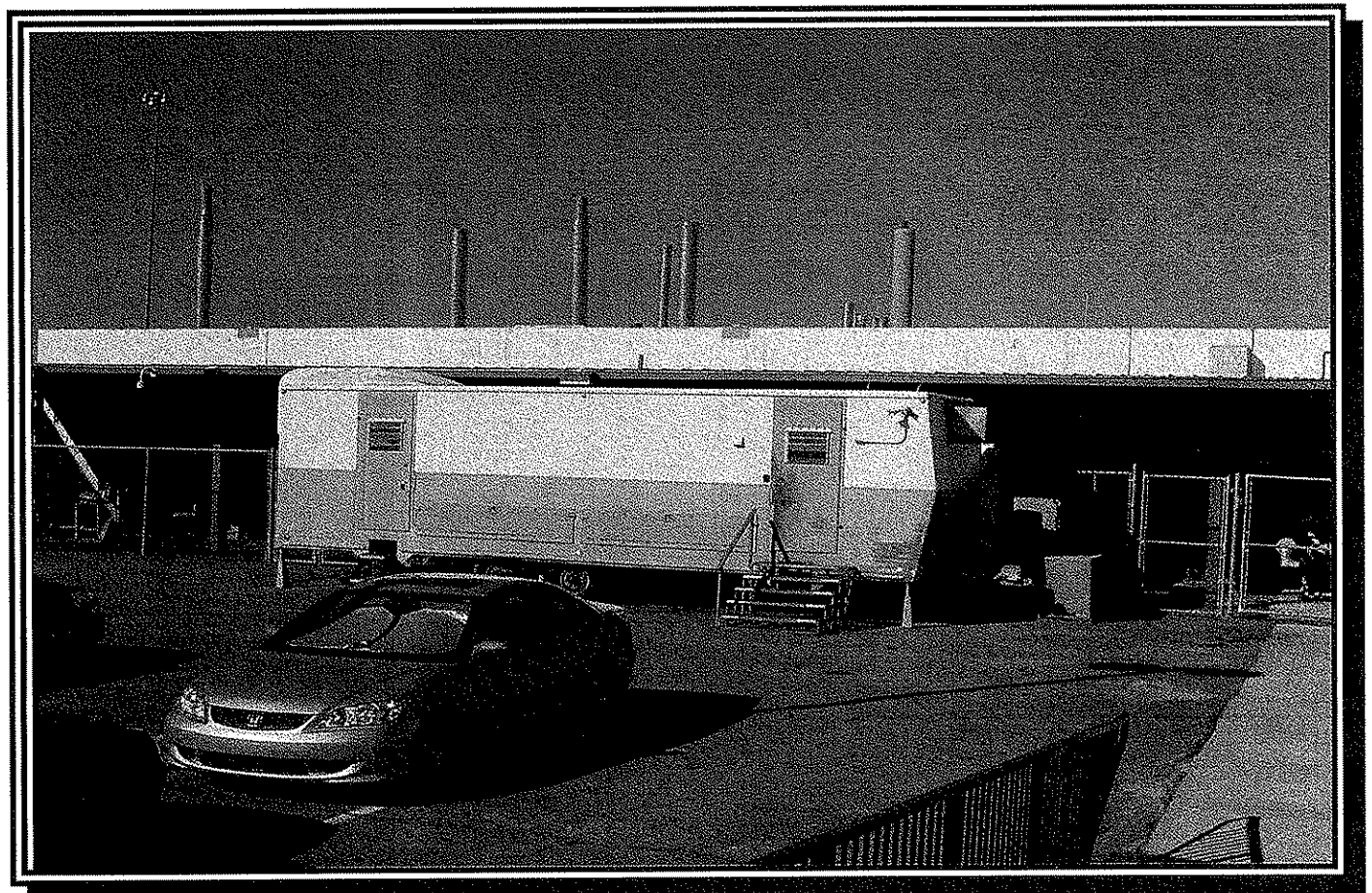
View north on I-17 Frontage Road



SUBJECT PHOTOGRAPHS

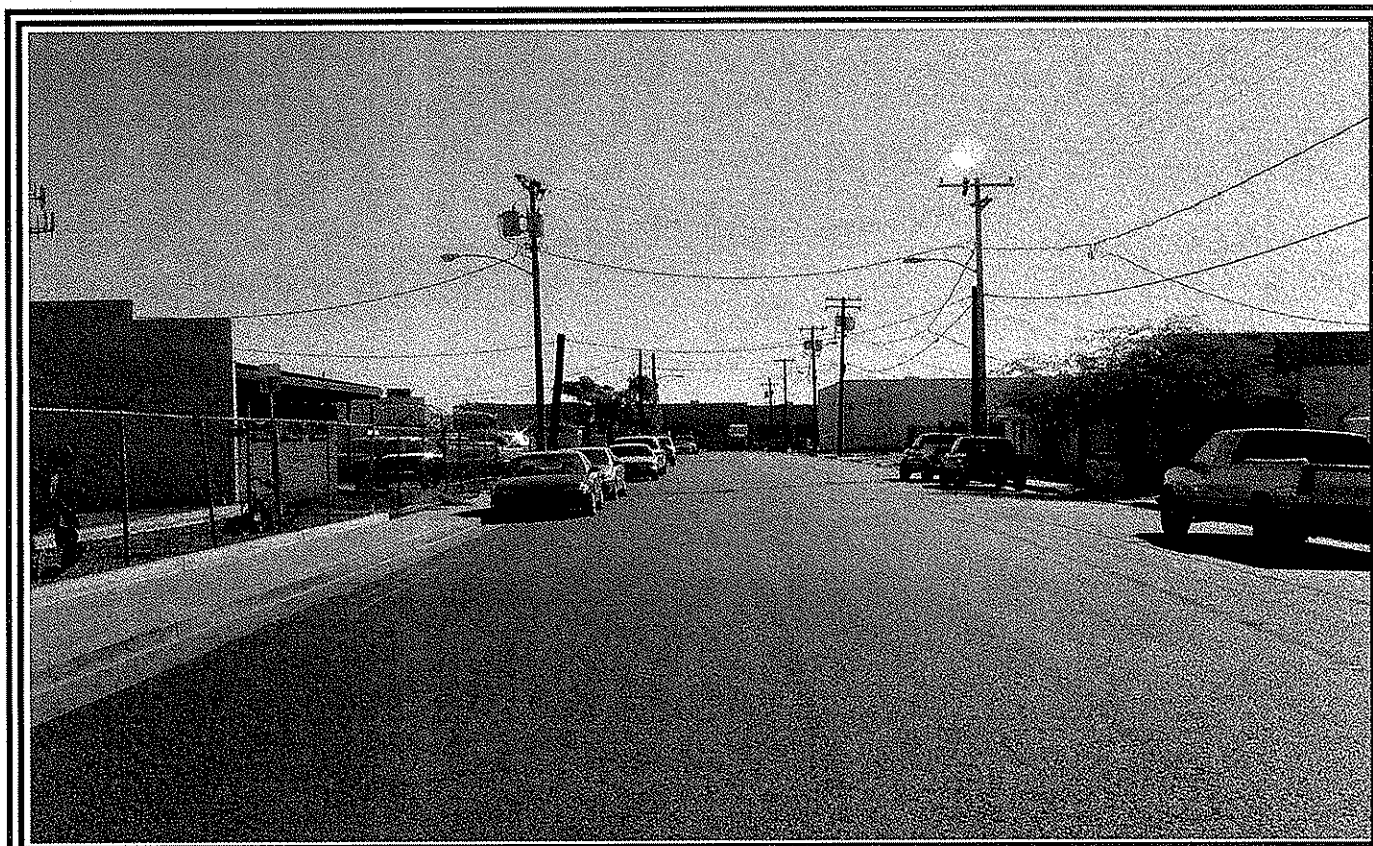


Front View of the subject property

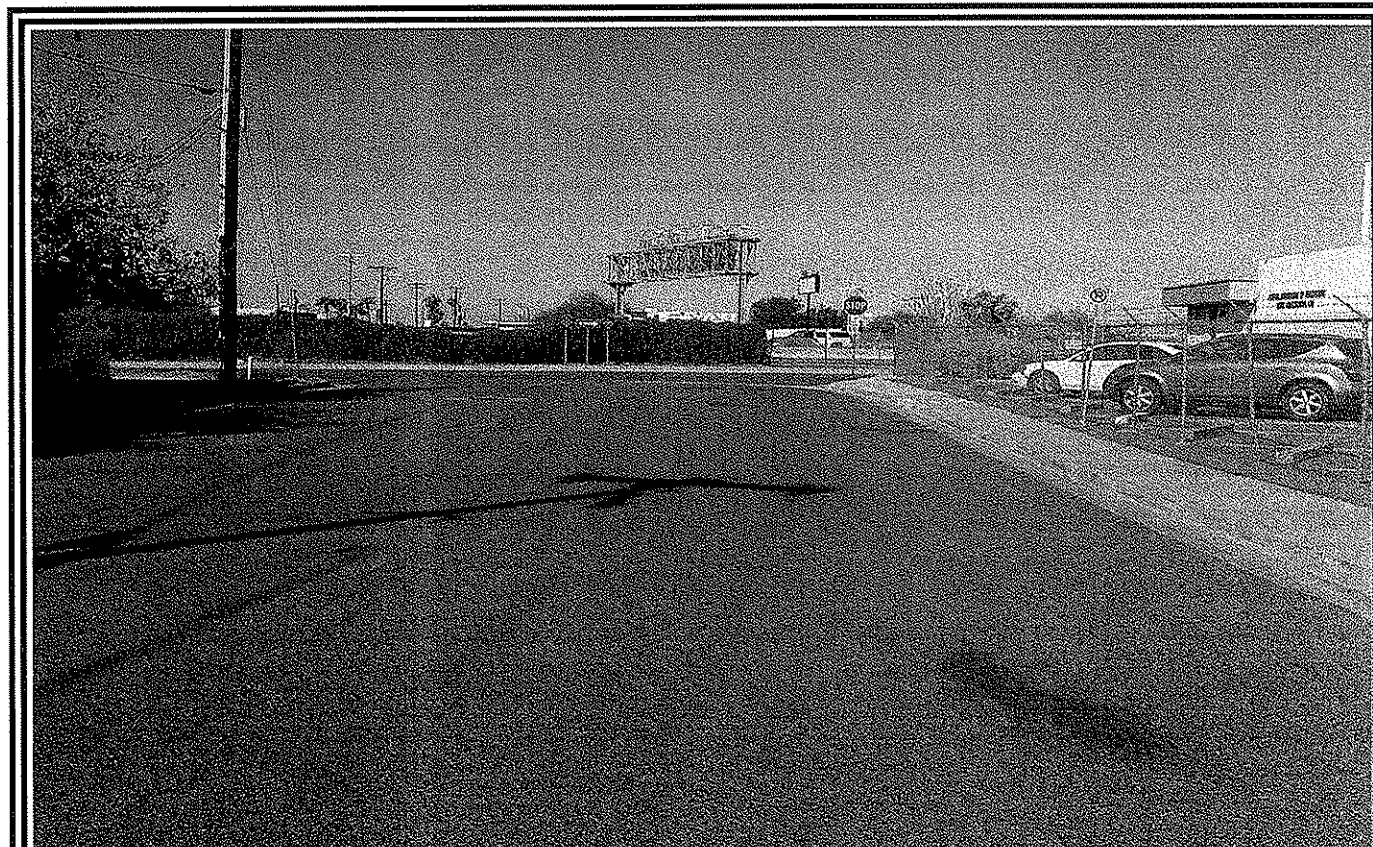


Rear View of the subject property

SUBJECT PHOTOGRAPHS



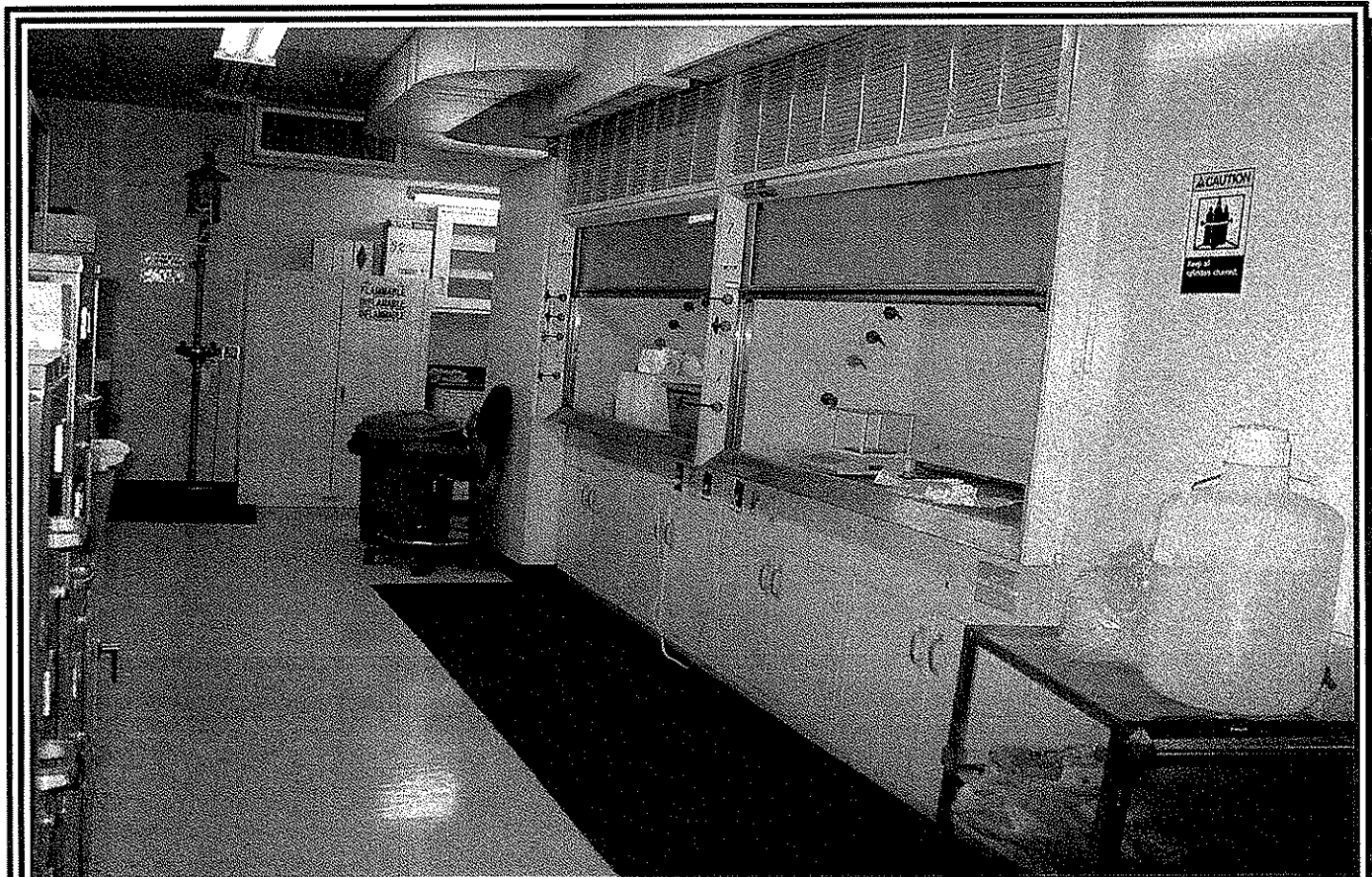
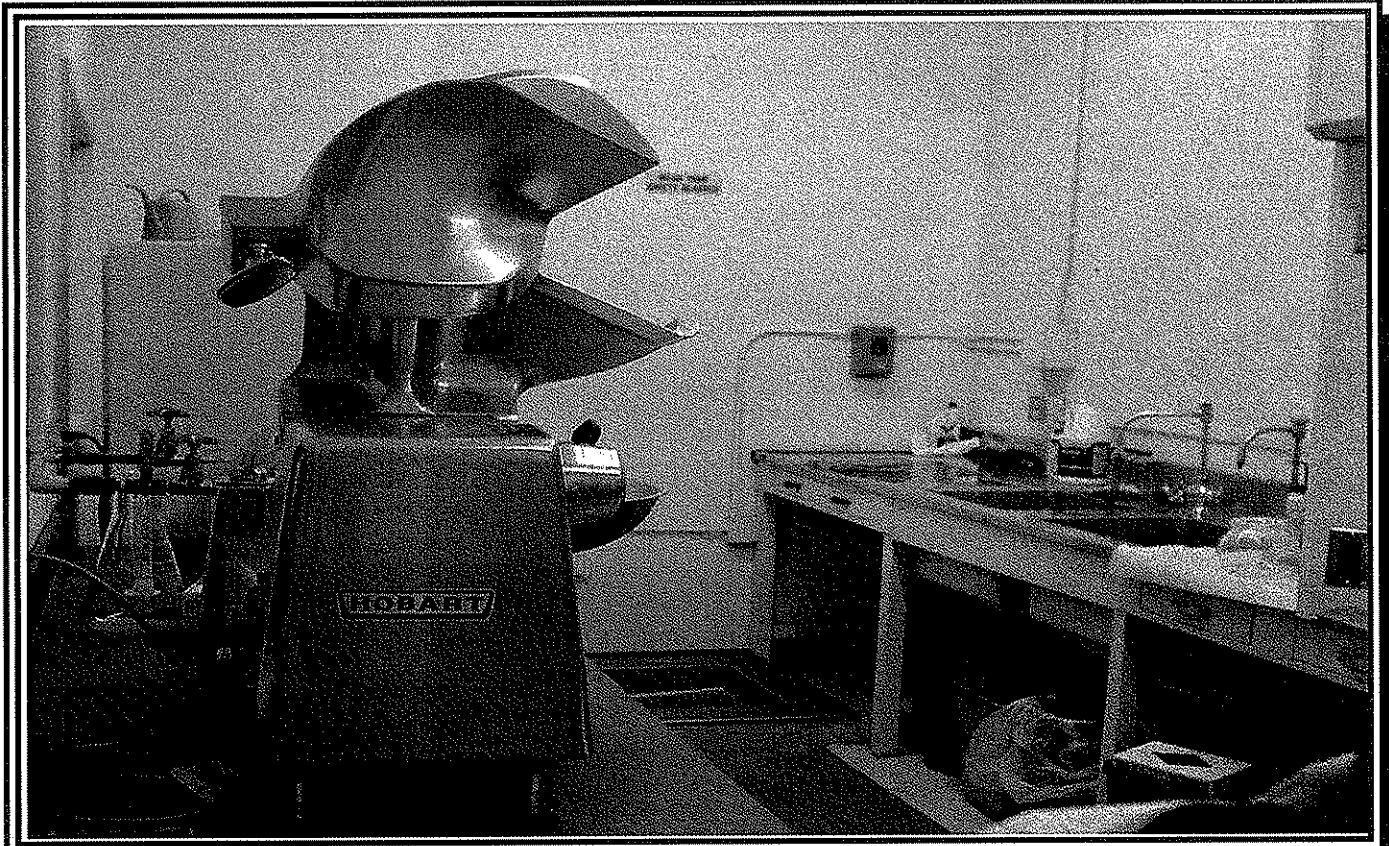
View East on Holly Street



View West on Holly Street

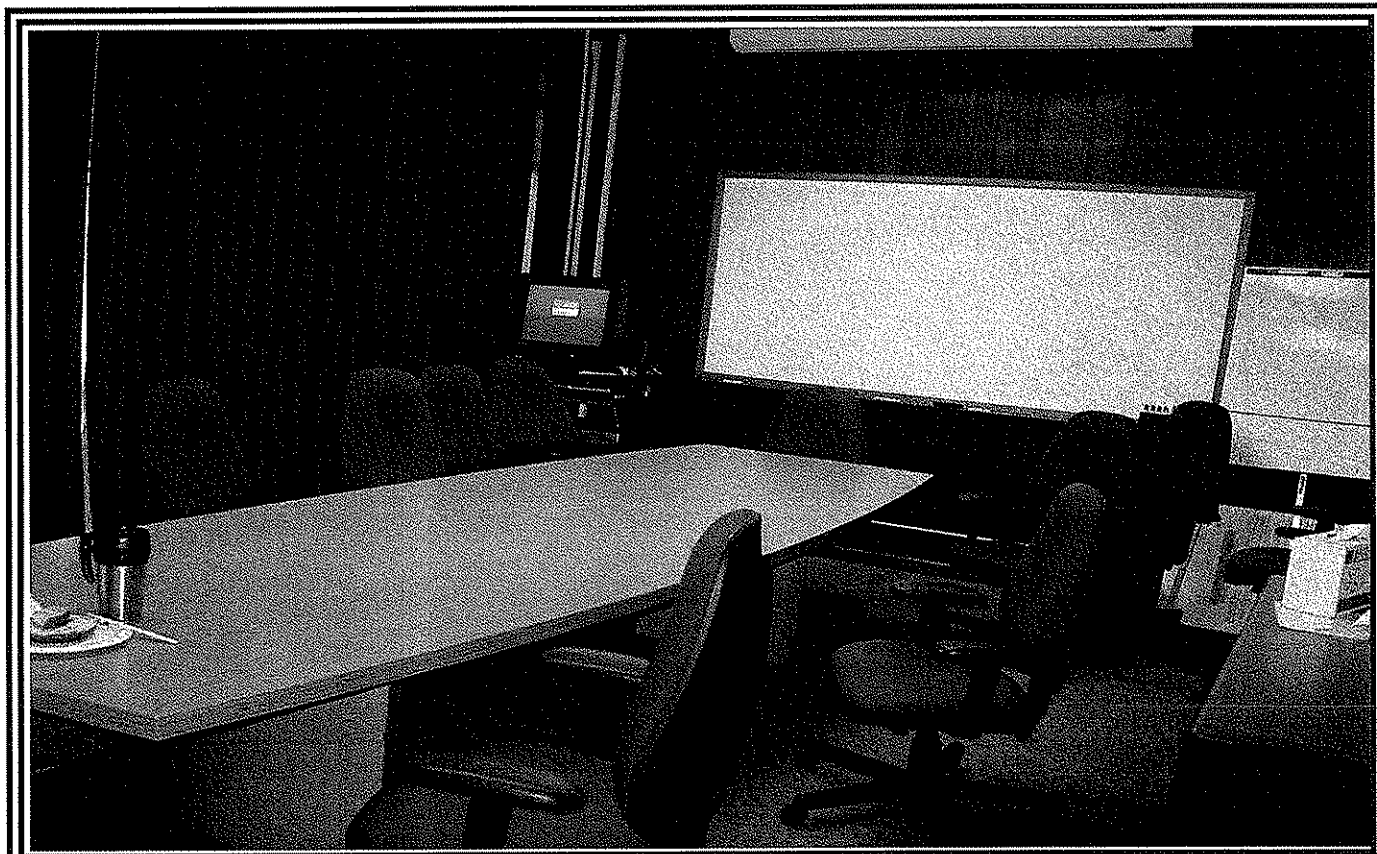


SUBJECT INTERIOR PHOTOGRAPHS

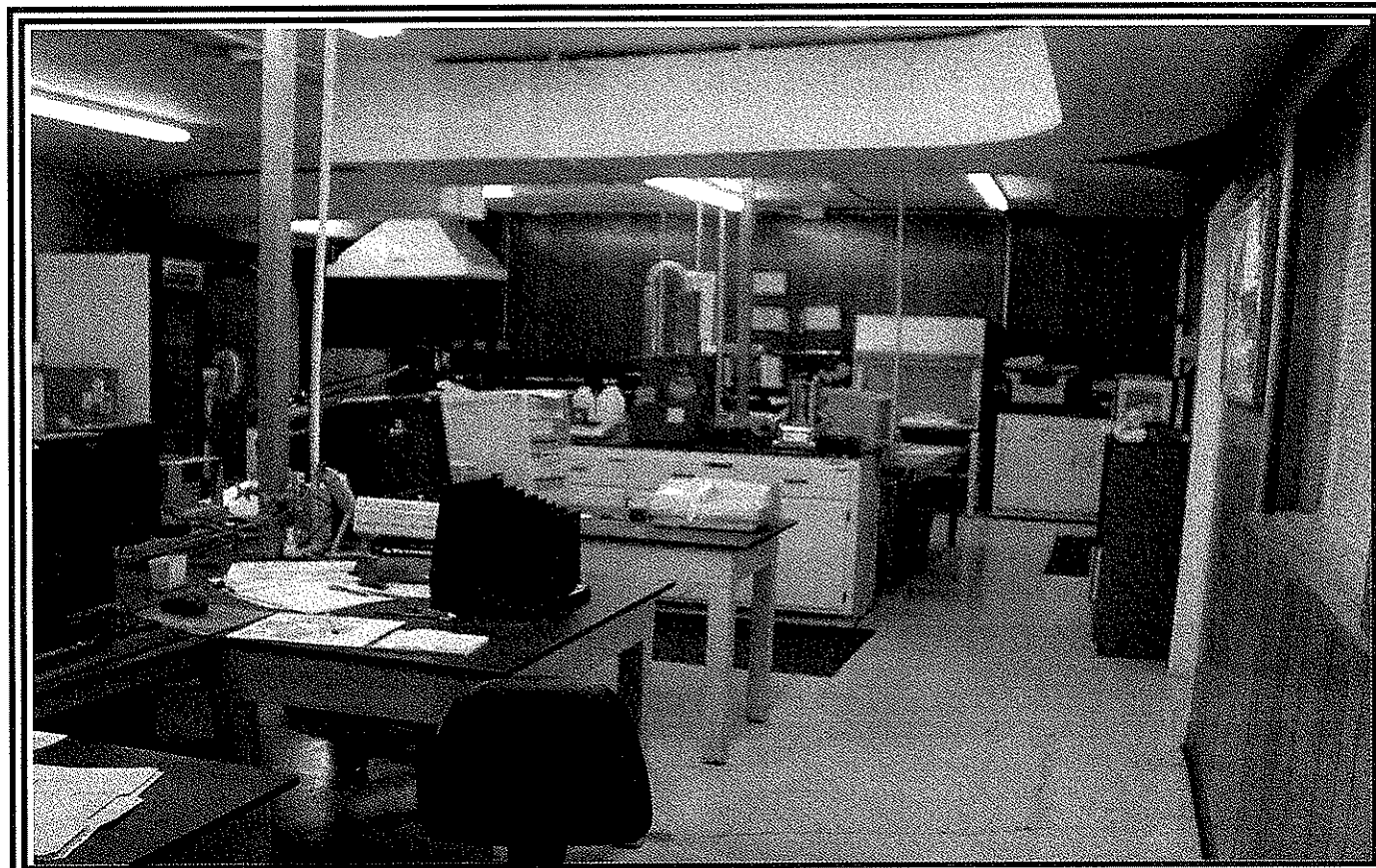


Subject Lab

SUBJECT INTERIOR PHOTOGRAPHS



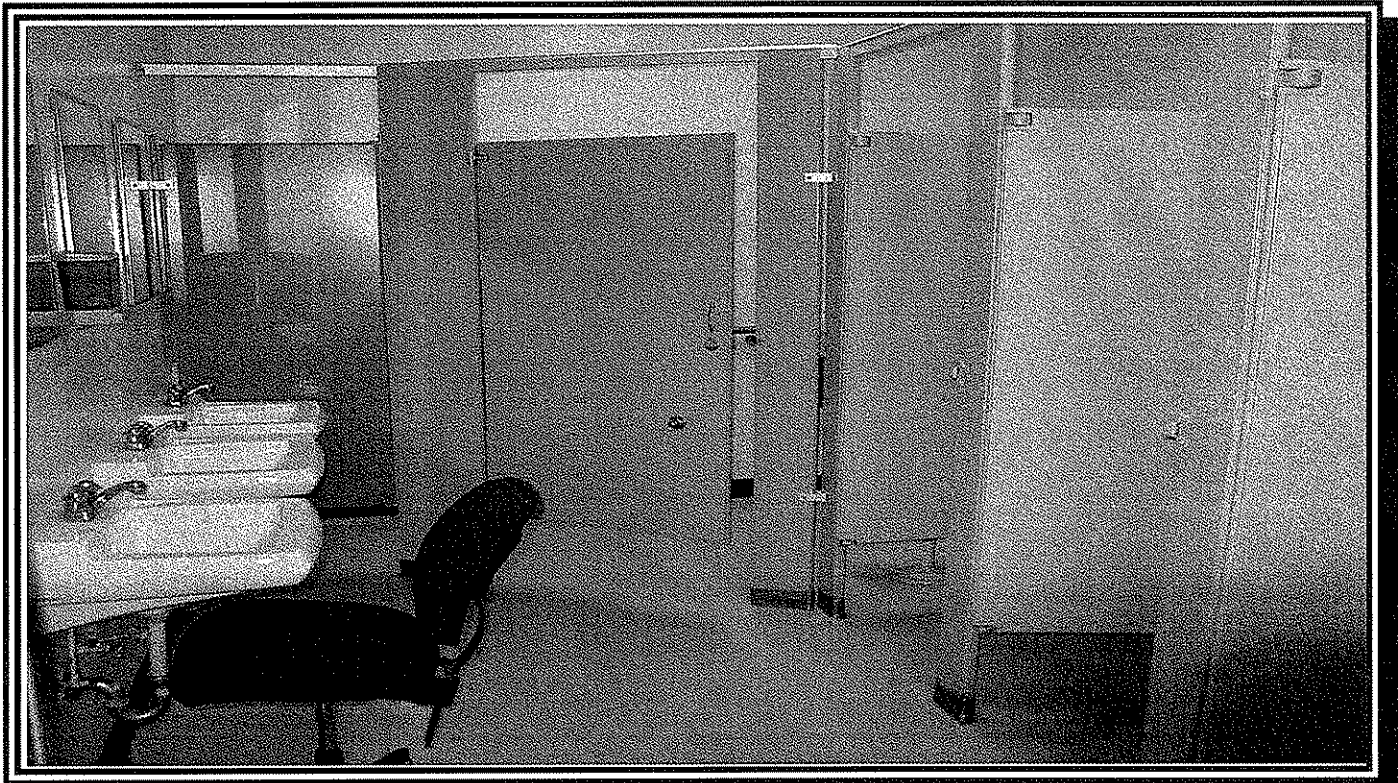
Subject conference room



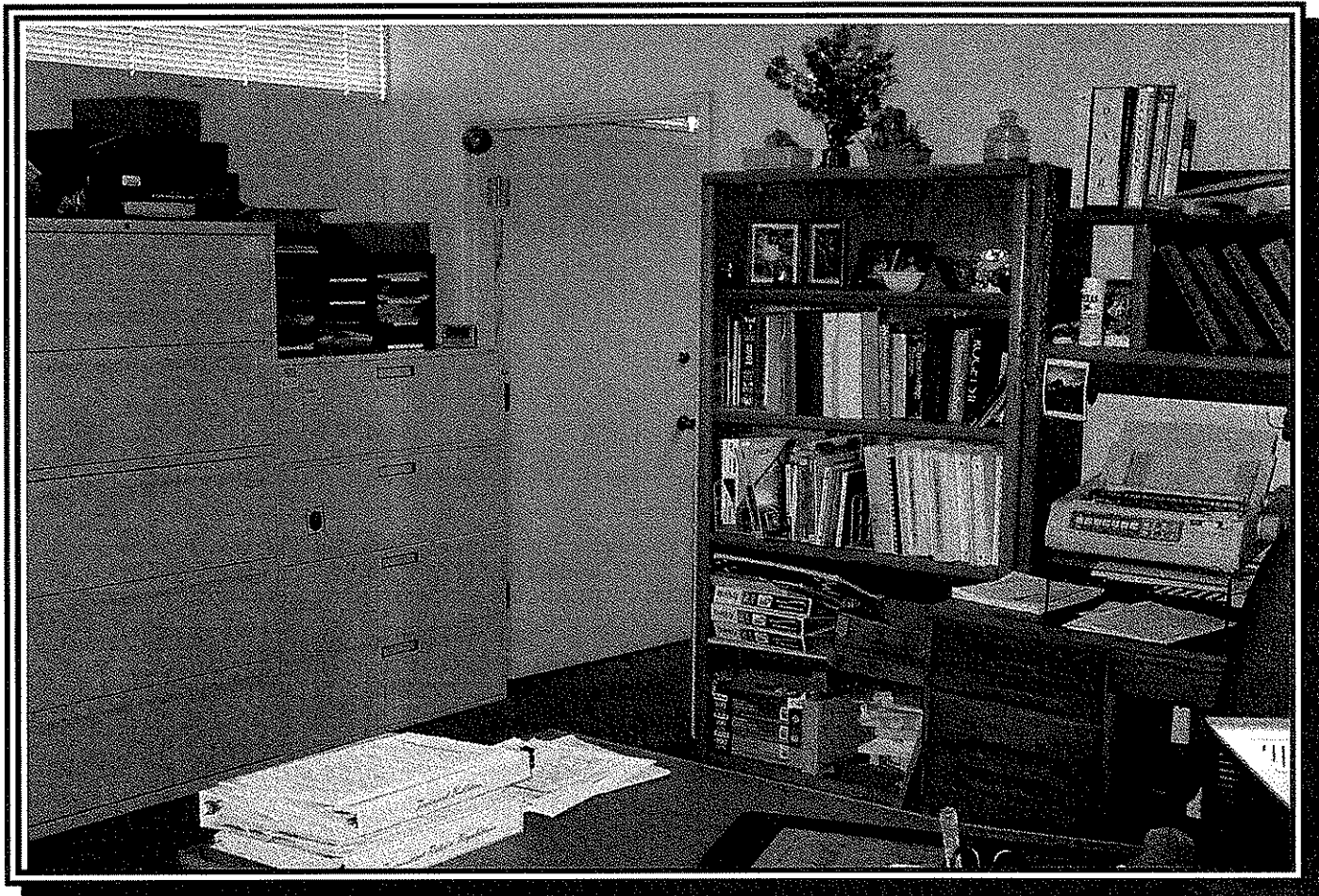
Subject Lab



SUBJECT INTERIOR PHOTOGRAPHS

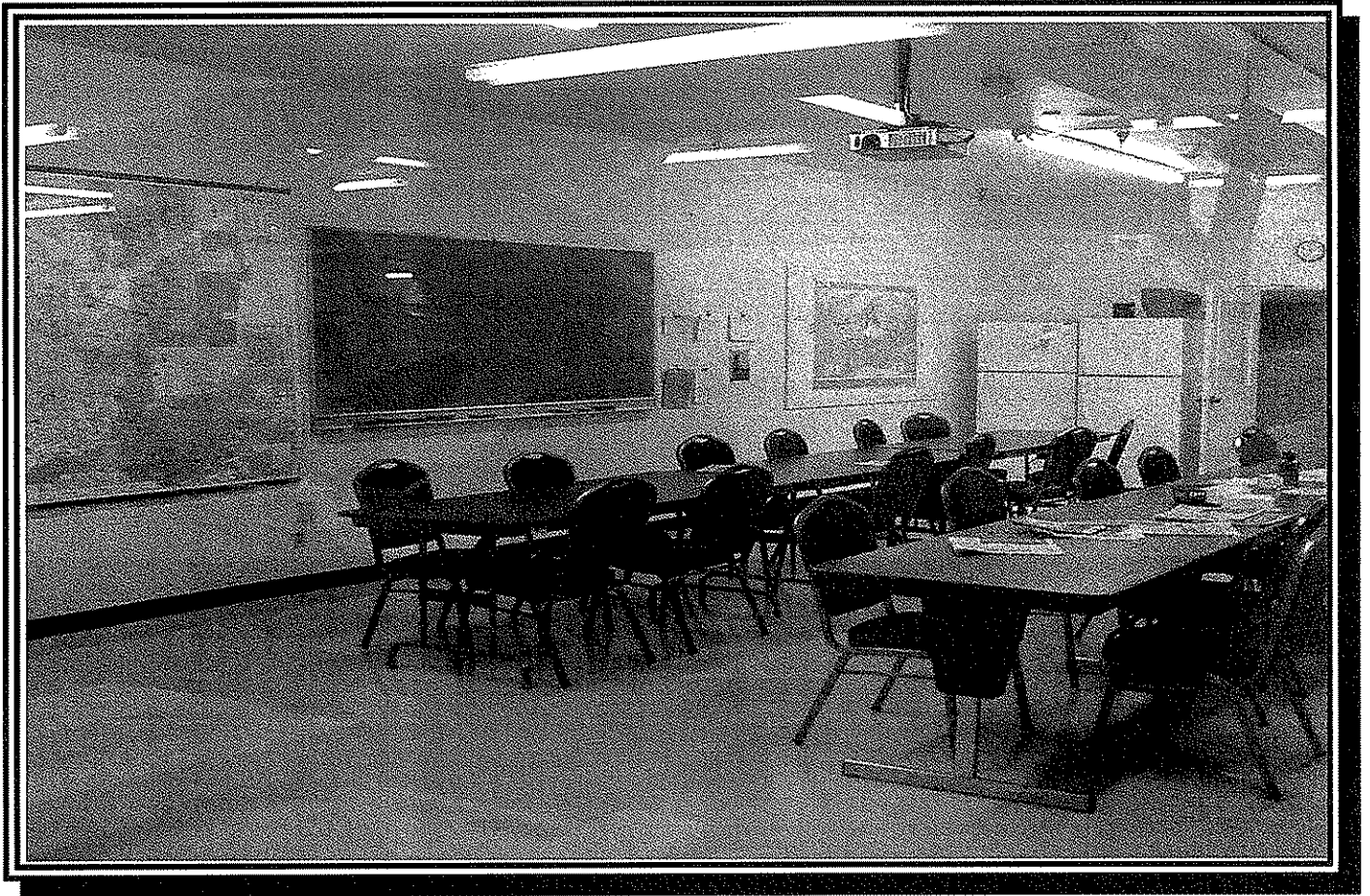


Subject Restroom



Typical Subject Office

SUBJECT INTERIOR PHOTOGRAPHS



Subject Break room



Ceiling Water Damage